2007 Sitka Housing Report

Survey Results

Market Analysis

Action Plan

DRAFT

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2007 Sitka Housing Report

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1. Survey Results and Census Comparison

The City and Borough of Sitka conducted a Housing Survey to collect contemporary housing information for the community. In November 2006, the first batch of surveys were mailed out to selected households, and in January 2007, the survey was closed. 1038 households, or one in three, were randomly selected from the utilities mailing list. 38 addresses were invalid because it was a garage, the household was on vacation, the letter encountered irreconcilable delivery problems, etc.

Most household received an initial letter, a follow-up postcard, and a replacement survey. 543 filled-in responses were received for an excellent 54% response rate. However, surveys are not perfect, but they are designed to try and get the most representative picture of the community.

This section of the report will announce and analyze the results of the survey in three categories: demographics, opinions, and housing data. Demographic questions were intended to verify that the sampling was indeed representative of the target population. Comparisons with Census 2000 data will be used to determine the resilience of the responses. Opinion questions were ask to get a sample of how the community feels about housing issues in Sitka. Finally, factual housing data was also collected to determine the existing state of the housing market and the gaps that may be in it.

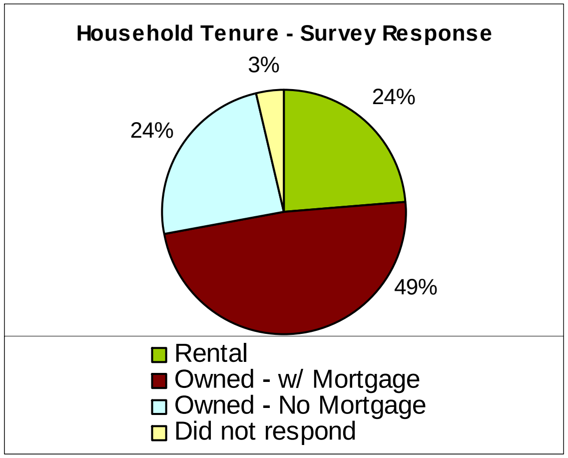
1.1. Demographics

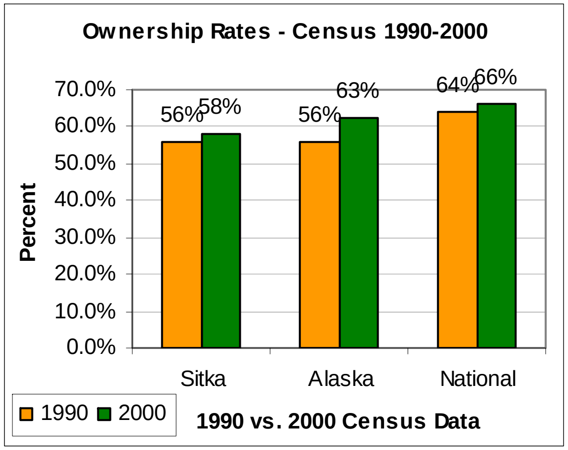
For 2007, Census 2000 data is rather outdated, but it remains one of the more reliable and few available sources of data for community statistics. While demographic information may have changed slightly since 1999, it should not be drastically different and should provide a suitable comparison to survey data to determine how representative the respondent sample was.

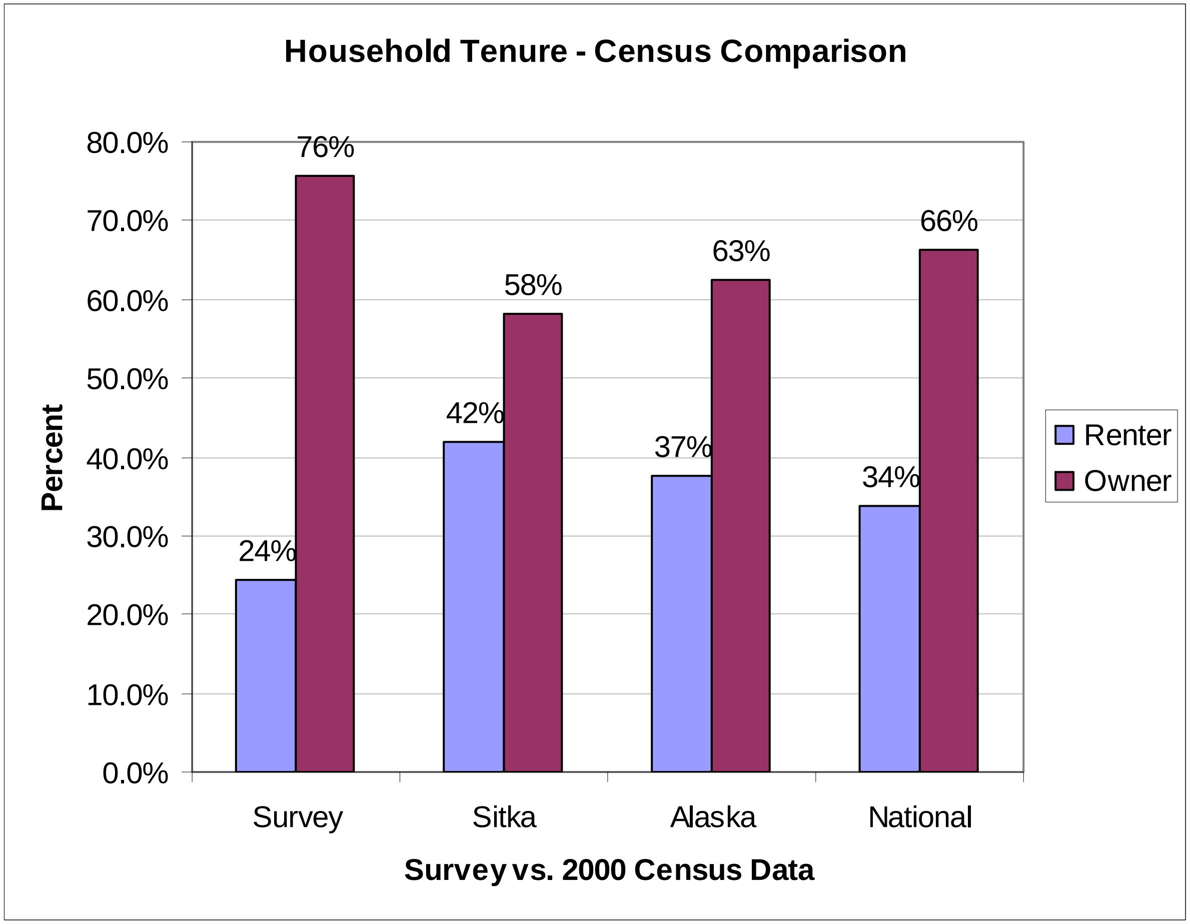
Survey Question #11:
Is your home:
a) Rental
b) Owned - with Mortgage or Loan
c) Owned - No Mortgage

1.11. Renters and Owners

As shown in the upper graph on the left, 24% of respondents were renters, 49% owned with a mortgage, and 24% owned their home out right. This outcome did not match with Census 2000 data, which suggested several biases may be at work favoring owners over renters. Some likely explanations include: (1) sample bias, where homes with separate electric meters for garages and shops were over-represented while apartments and duplexes that share electric meters were under-represented; (2) delivery bias, where homes with apartments may share a common mailbox and the "current resident" letter may have ended up with the owner when it was intended for the renter; (3) response bias, where more stable owners were more likely to take the time to respond than less stable renters.







Surveys are not perfect, and there are methods to extract more representative results. To compensate for the renter to owner imbalance, most of the responses in the survey will be presented in these two separate groups rather than as an aggregate. This distinction presents an accurate picture of each group and also helps reveal important differences between renters and owners. Finally, where appropriate, responses may be weighted based on the Census 2000 renter to owner ratio so as to present a more accurate aggregate picture of the community.

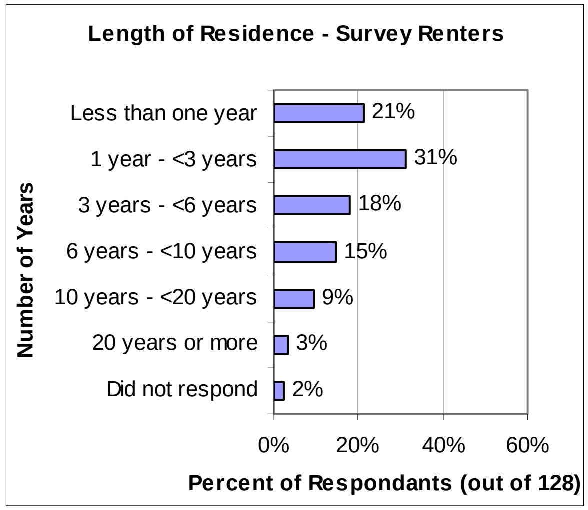
Survey Question #4:
How long have you lived in your home?

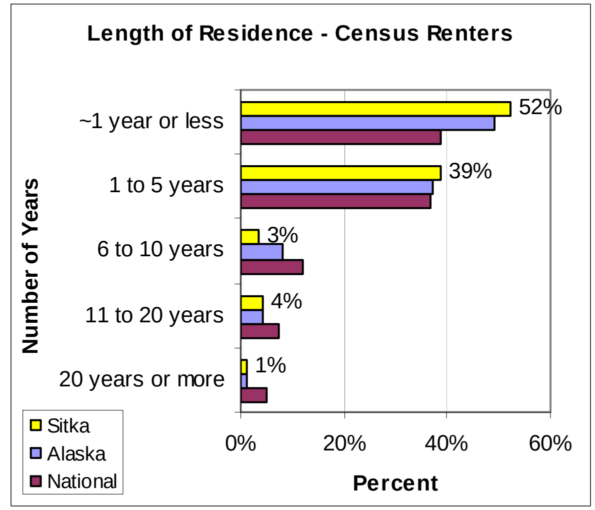
1.12. Length of Residence

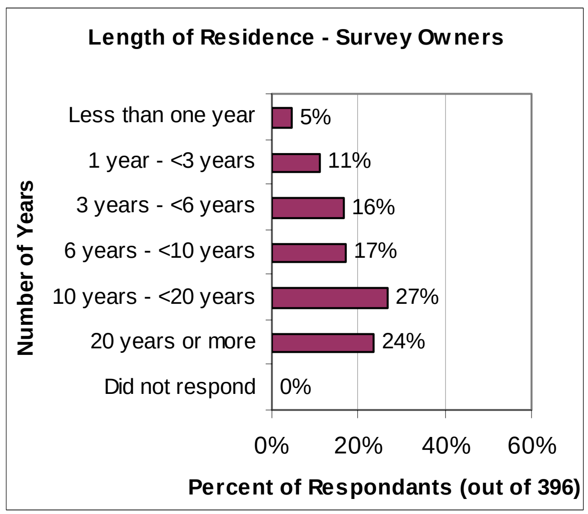
The graphs on the right show dramatic differences between survey renters and survey owners, and between Census renters and Census owners. Renters tend to have lived in their residence a shorter time, while owners are considerably more stable.

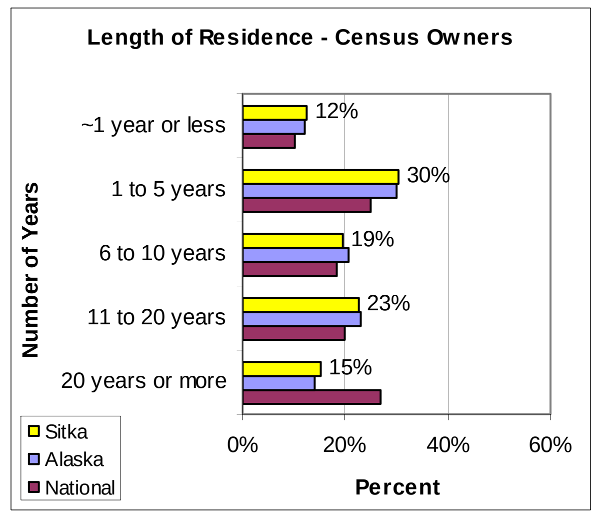
Looking at survey and Census data, it is important to note that the time brackets are slightly different, thus prevent a direct comparison. However, it is probably safe to conjecture that the newest renters and owners under-responded in the survey, probably because they are less settled in.

Finally, Sitka seems to follow state and national average fairly closely. Sitka does have more renters in the "approximately one year or less" category, and less renters in categories six years and more, compared with the rest of Alaska and particularly with the country.









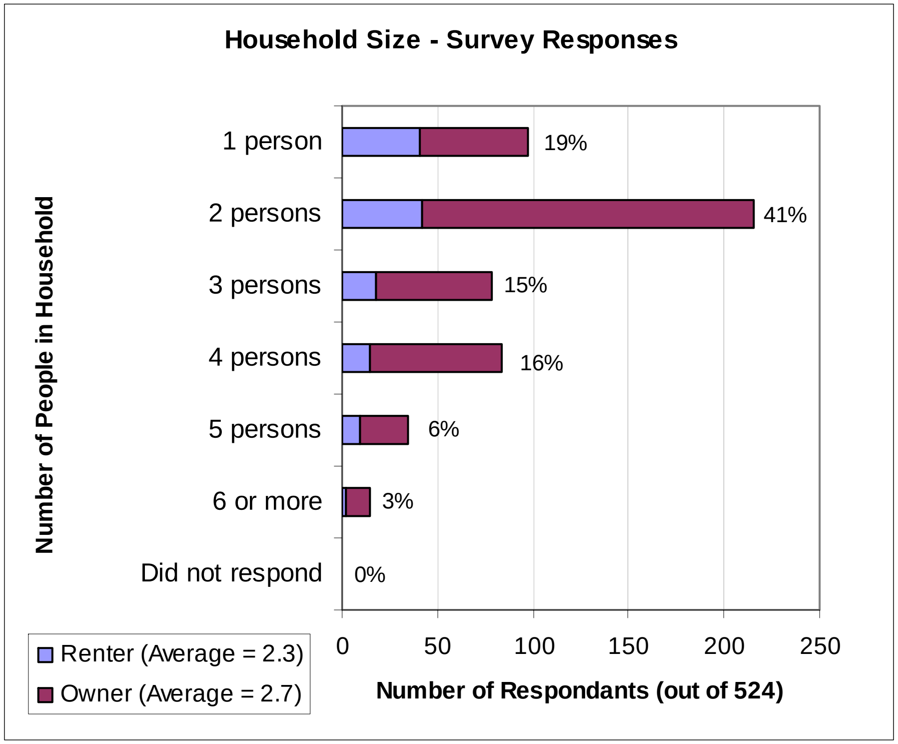
Survey Question #12:
Including you, how many people currently live in your household?

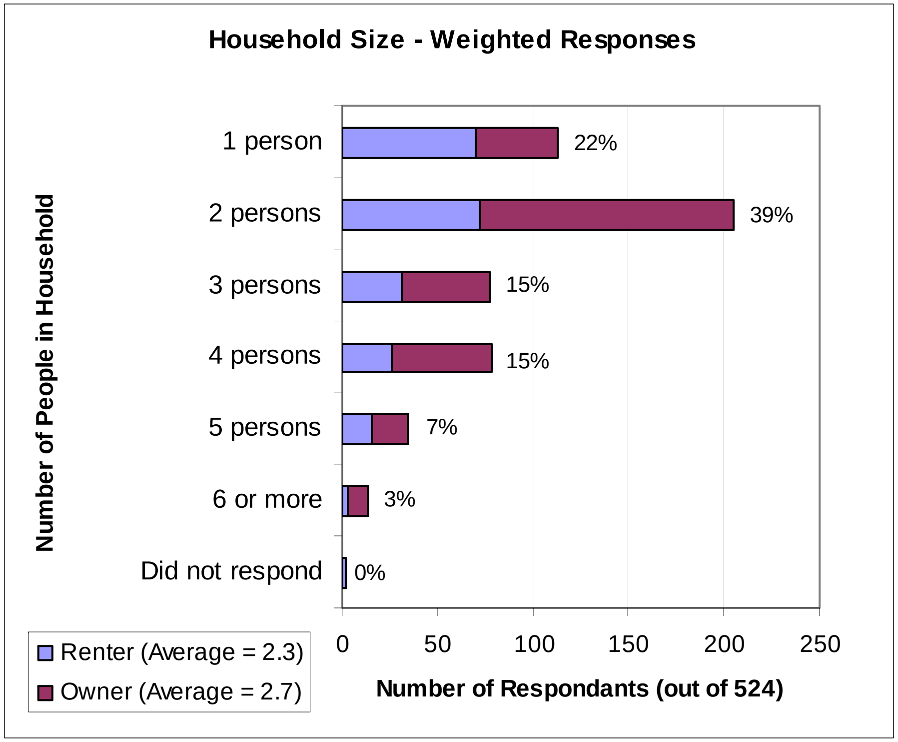
1.13. Household Size

Raw responses of household sizes averaged at 2.3 persons for renters and 2.7 persons for owners, which closely match the Census 2000 numbers of 2.3 for renters and 2.8 for owners, shown on the opposite page.

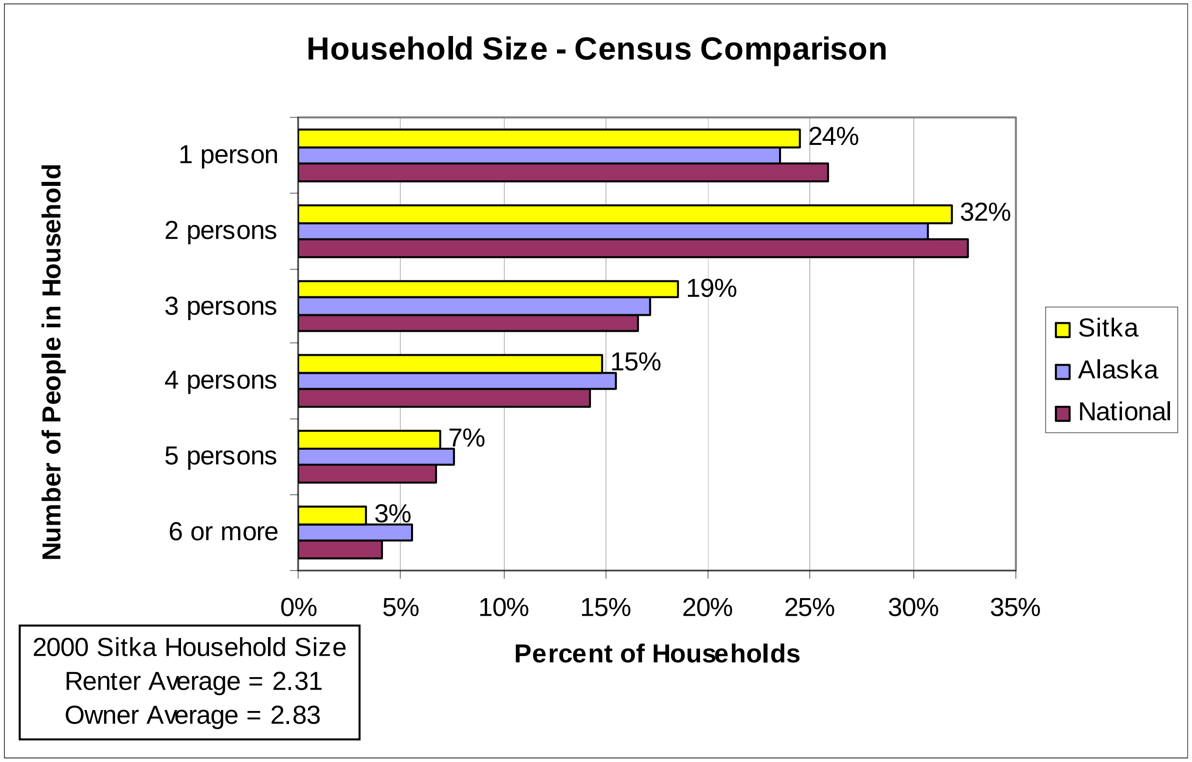
It is appropriate here to weigh the survey responses to produce the proper balance of renters and owners to look at the aggregate household size distribution. The weighted result, shown in the right graph below, fairly approximates the Census distribution.

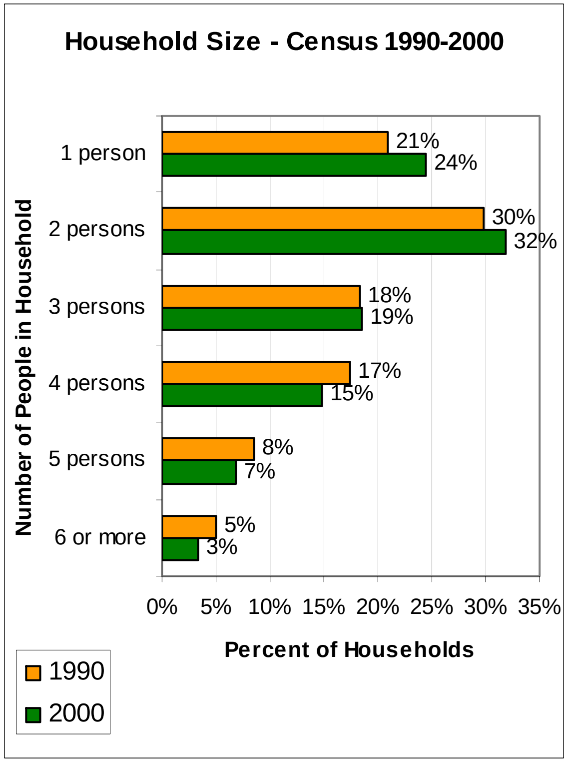
Not surprisingly, one-person household are more likely to be renters than owners. The result also shows that renters tend to be one- or two-person households, while owners are most likely to be 2-person households.





Sitka household sizes have been decreasing between 1990 to 2000, according to Census data shown on the bottom right. Census 2000 data indicate that 56% of Sitkan households are 1- or 2-person households. Survey results corroborate this finding at 61%. 3- and 4-person households make up 34% of Census households and 30% of survey households. Households with 5 or more members represent only 10% of all households according to both Census and survey data.



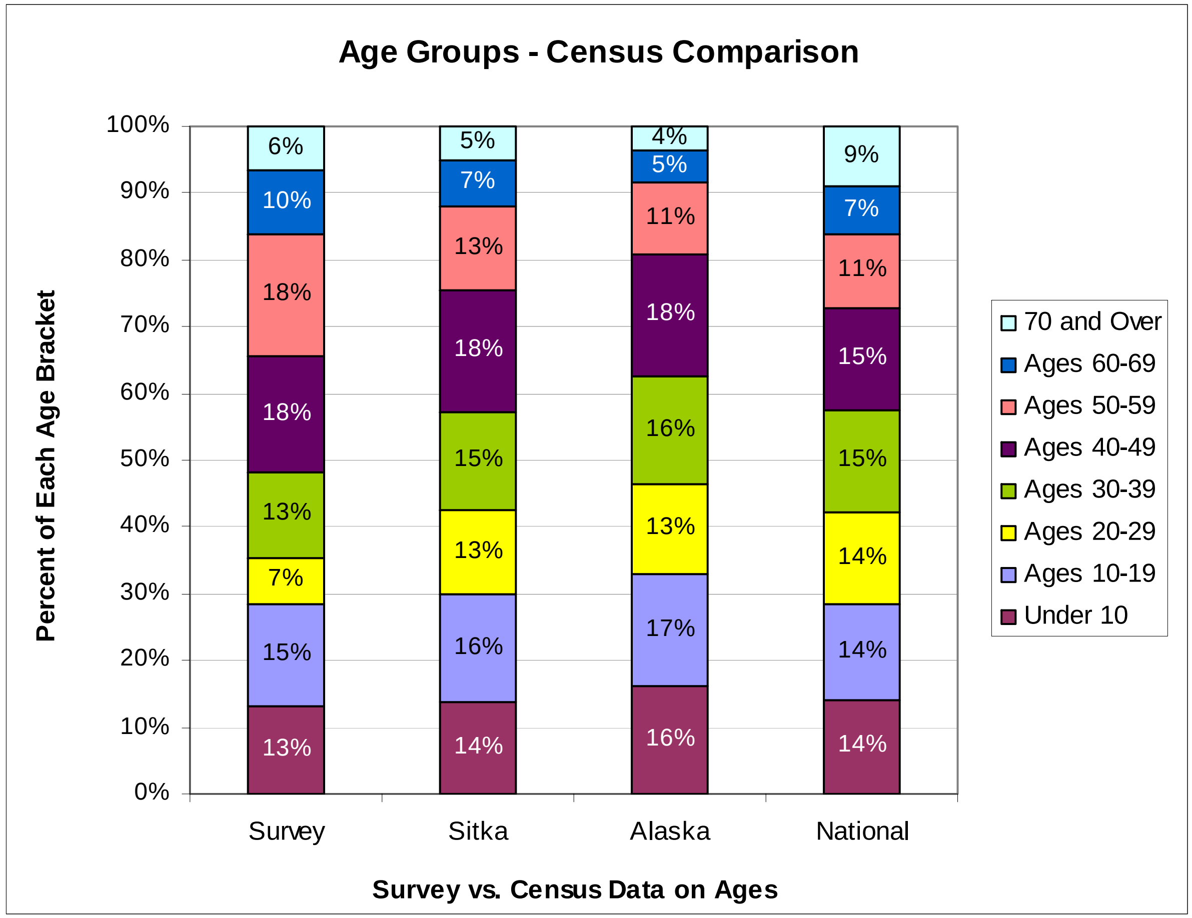


Survey Question #13:
Please list the ages (in years) of all the members of your household.

1.14. Ages

Comparing survey results with Sitka Census data, as displayed below in the left two columns, shows that the age group between 20-29 is under-represented in the survey, and age groups between 50-69 are over-represented. This substantiates the fact that more owners responded than renters as compared to the Census balance. Owners tend to be older and renters younger.

Sitka also compares similarly to the national average, with the exception that it has less people in the age group 70 and over.



1.15. Marital Status

Marital status was added to the survey for purely demographic reasons. The 60% married rate compares well to Census data, and this statistic was not further analyzed.

1.16. Race

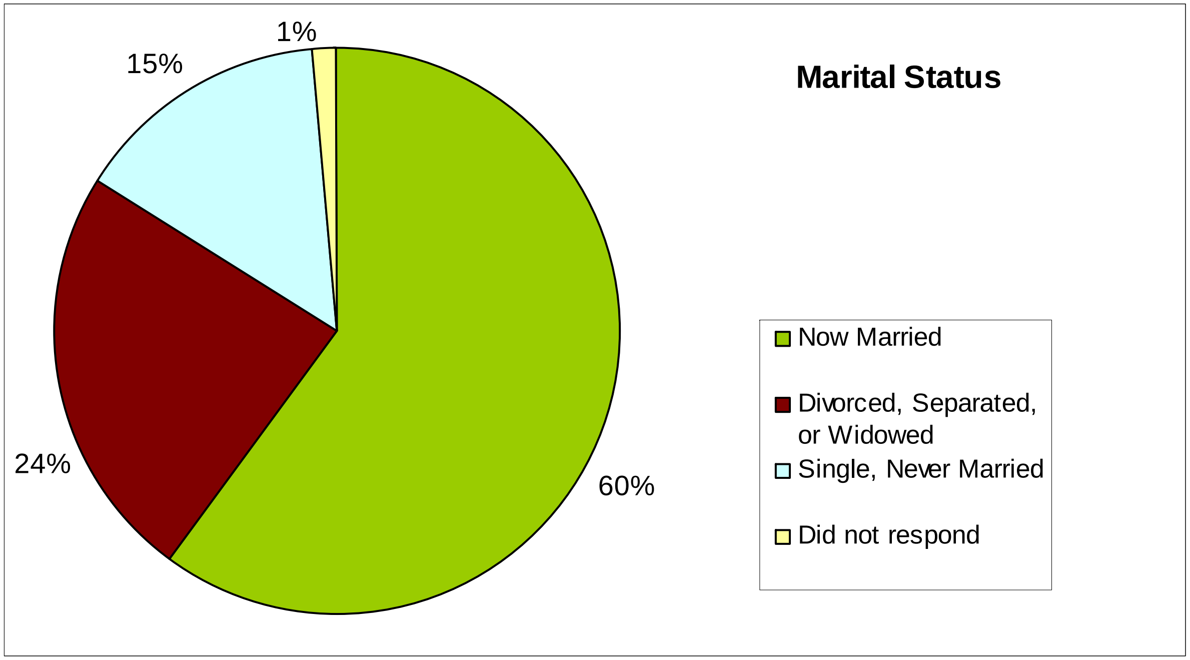
Race, like marital status, was added to the survey for purely demographic reasons. The survey allowed respondents to choose more than one race to describe the household, while the Census separates "two races" as a separate category and collect race data only for the head of household. Despite the differences in accounting, the survey Caucasian to Native American ratio compares well to known data, indicating there was no fundamental bias in the survey.

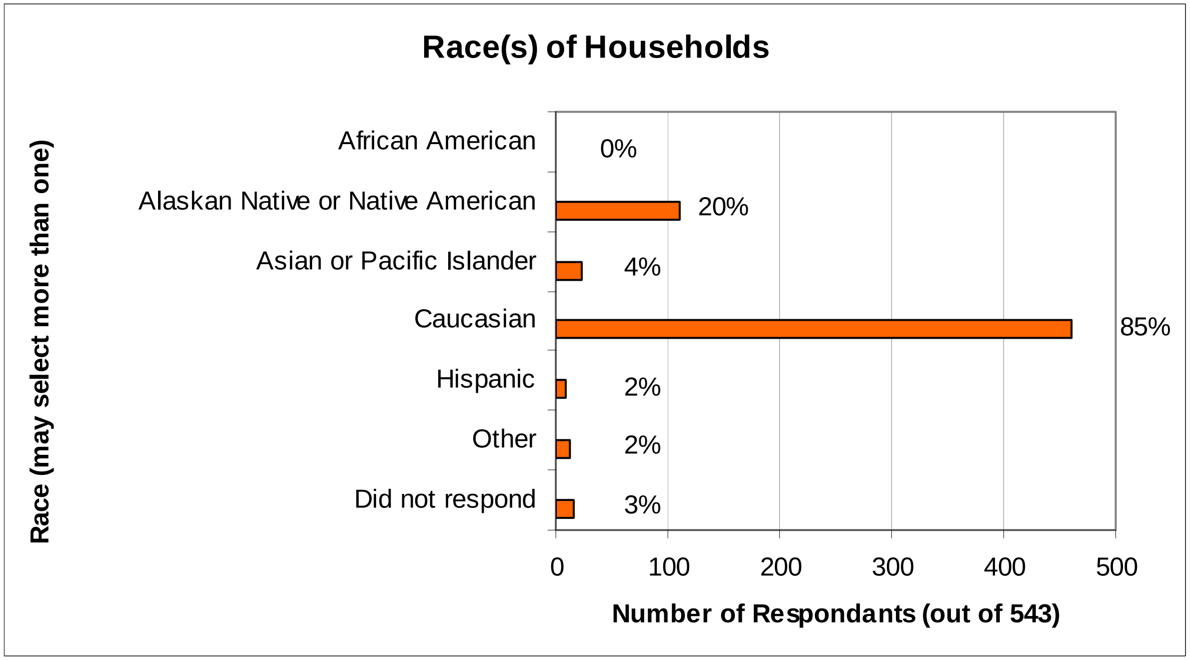
Survey Question #14:
What is your marital status?

- Now Married
- Divorced, Separated, or Widowed
- Single, Never Married

Survey Question #15:
Mark one or more races to indicate what best describes your household.

- African American
- Alaska Native or Native American
- Asian or Pacific Islander
- Caucasian
- Hispanic
- Other





1.17. Income

Raw responses of household income turned out medians at $50,000 for renters and $70,000 for owners, as shown in the top graph on the opposite page. It is appropriate here to weigh the survey responses to produce the proper balance of renters and owners to look at the aggregate household income distribution. The weighted result is shown in the bottom graph of the opposite page.

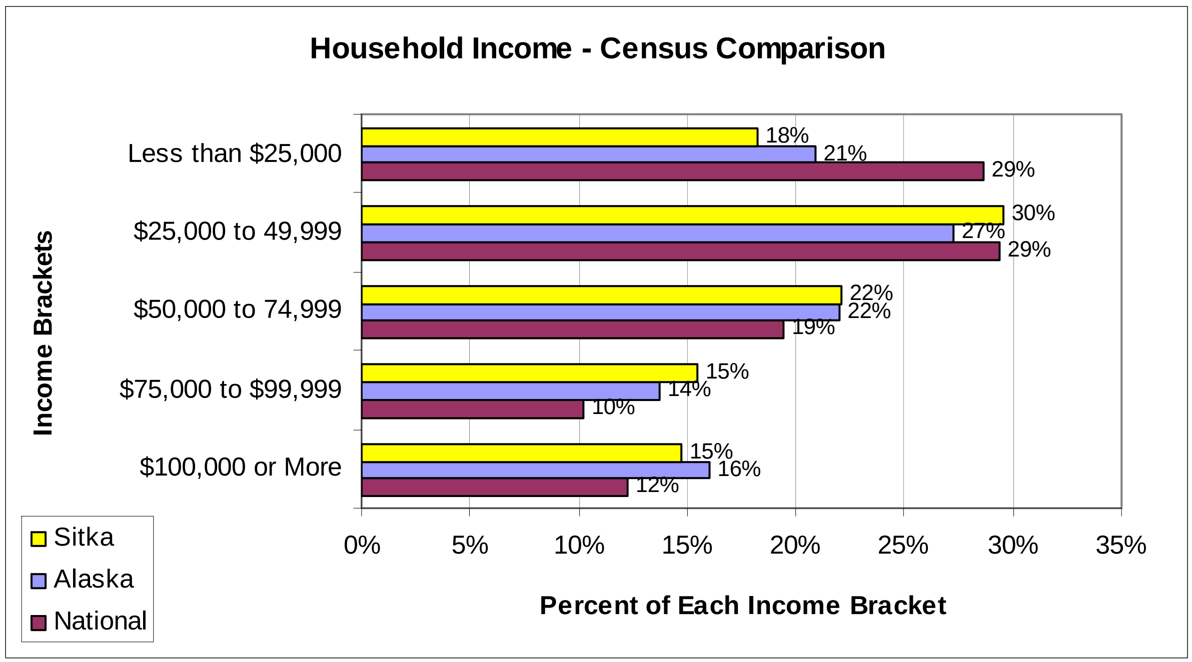
The distribution of renters and owners within each income bracket is revealing but not surprising. Renters compose 70% of the lowest income bracket, and the proportion of renters drop with each increasing income bracket.

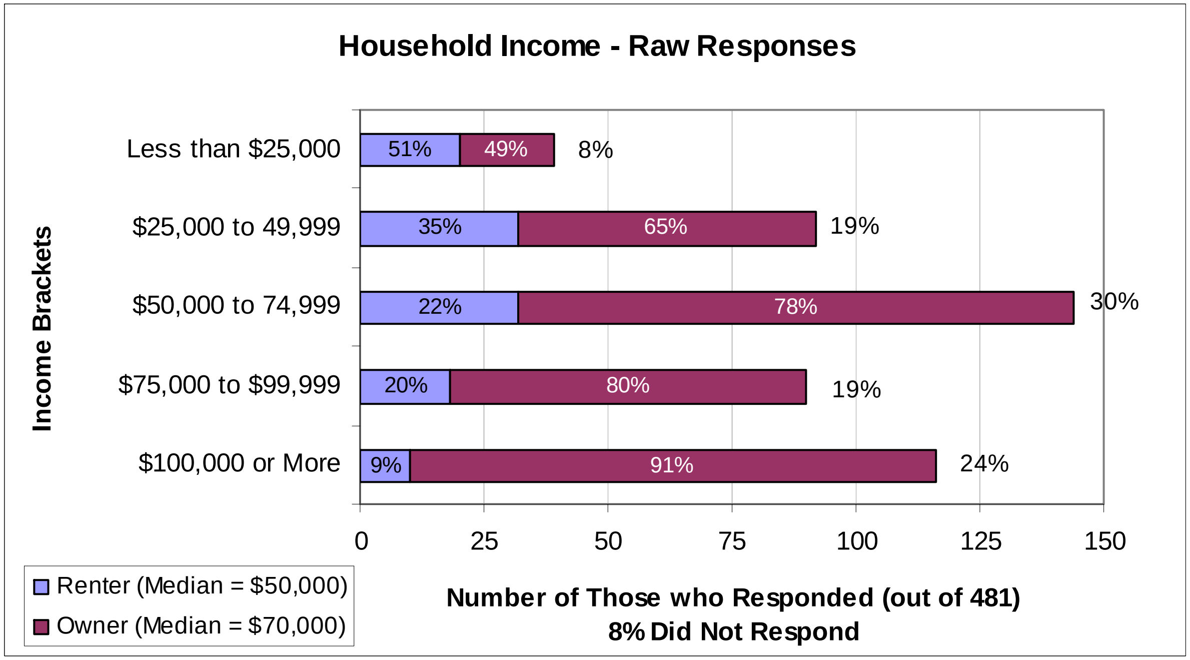
Even though the income categories are aligned, it is difficult to compare the survey income to Census income because of the time difference. 1999 dollars are simply not worth as much as 2006 dollars, which may explain why the distribution was higher in the survey. However, it is probably safe to speculate that the lowest brackets suffered a response bias and were under-represented in the survey.

Finally, Sitka's incomes are generally higher than national incomes, with a substantially lower percentage in the bottom bracket and a higher percentage in the top two brackets.

Survey Question #18:
Please roughly estimate (to the nearest thousand) your total annual household income before taxes.

(Include wages, salaries, self-employment income, interest, dividends, rental income, Social Security, SSI, public assistance, pensions, VA payments, child support, and alimony, minus business/investment losses)

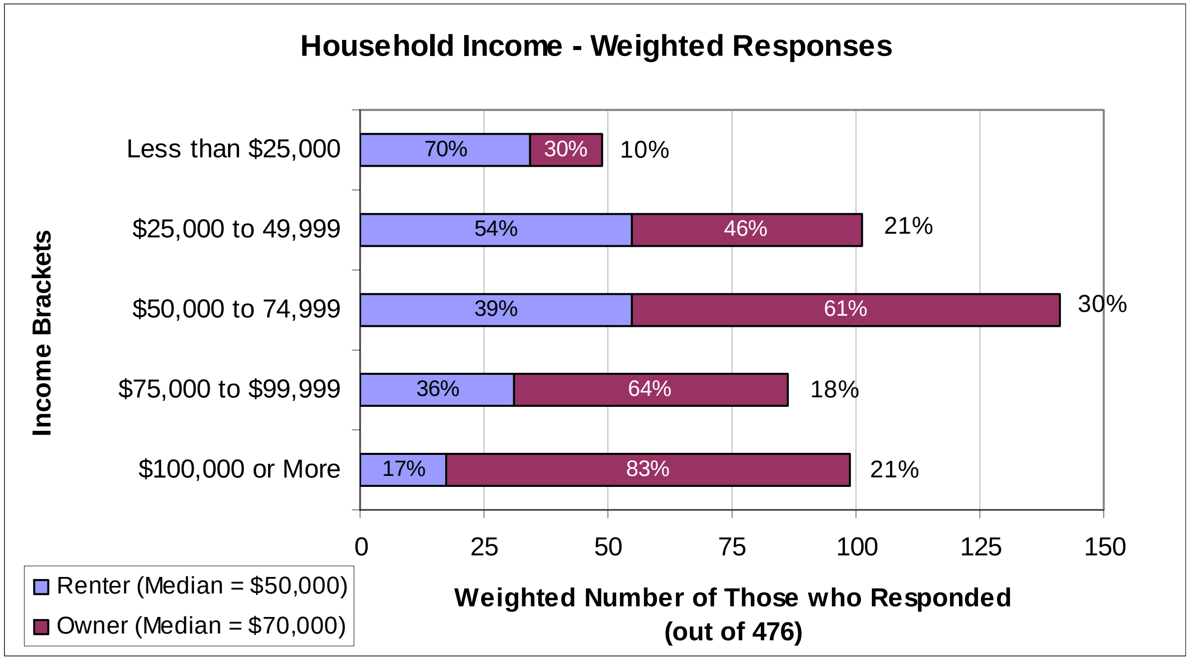


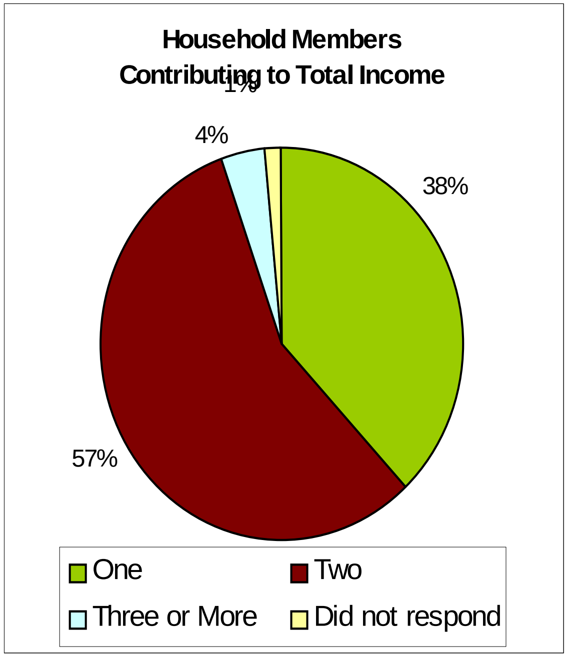


Survey Question #17:
How many individuals in your household contribute toward the total household income?

Income Contributions

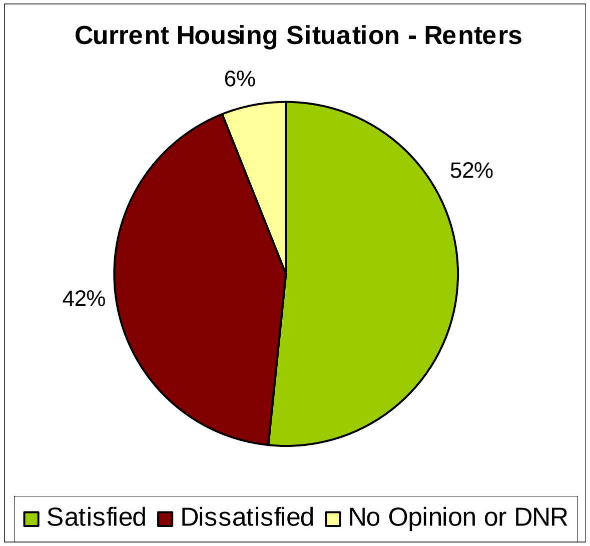
38% of respondents reported one person contributing to the total household income, while 57% report two persons. Not only is the majority of households dual income, but after taking into account that 19% of respondents were one-person households, it leaves only 19% who are multi-person households with only one income. A number of these are necessarily single-parent families.

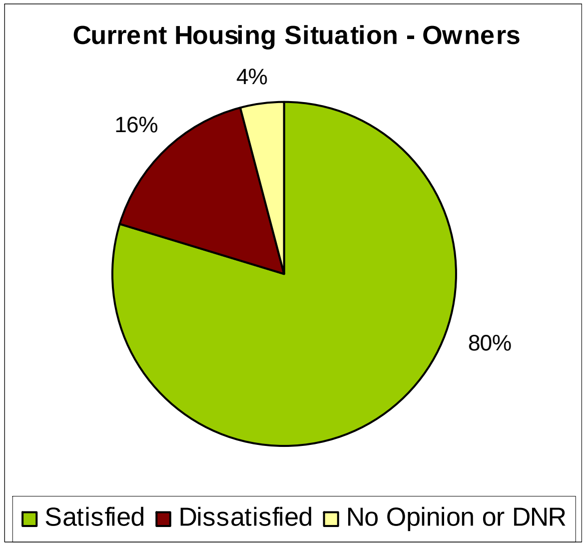




1.2. Opinions

After checking the demographic questions against Census data to make sure the response sampling was acceptable and representative, we can now examine the opinions and preferences of the respondents.



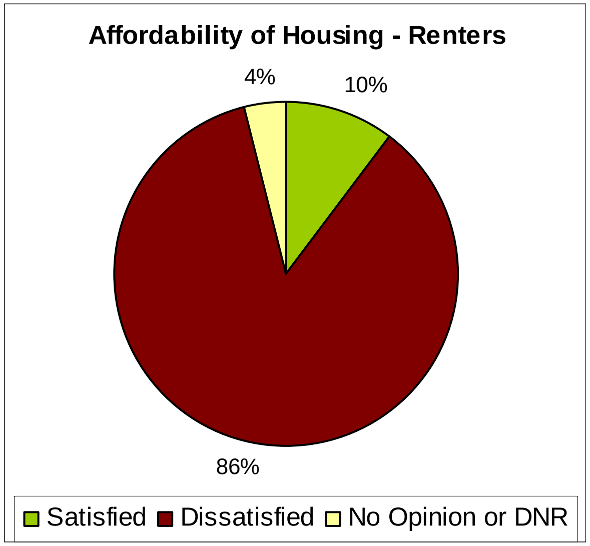


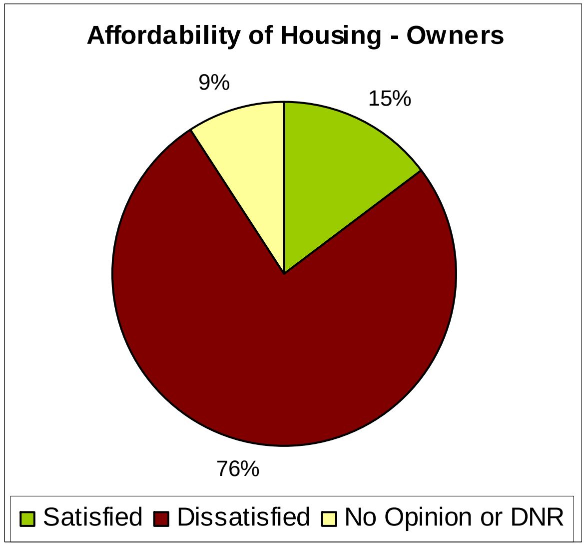
1.21. Current Housing Situation

Owners are clearly more satisfied with their current housing situation than renters, at 80% to 52% respectively.

1.22. Housing Costs Affordability

Owners and renters concur that they are both very dissatisfied with the affordability of housing costs today, at 76% and 86% respectively.





Survey Questions #1:
How satisfied are you with your current housing situation?

Survey Questions #2:
How satisfied are you with the affordability of housing costs for either buying or renting in Sitka today?

1.23. Energy Efficiency

More than half of the respondents (51%) were interested in making energy efficiency improvements to their home. A large number wrote in items such as new windows and better insulation.

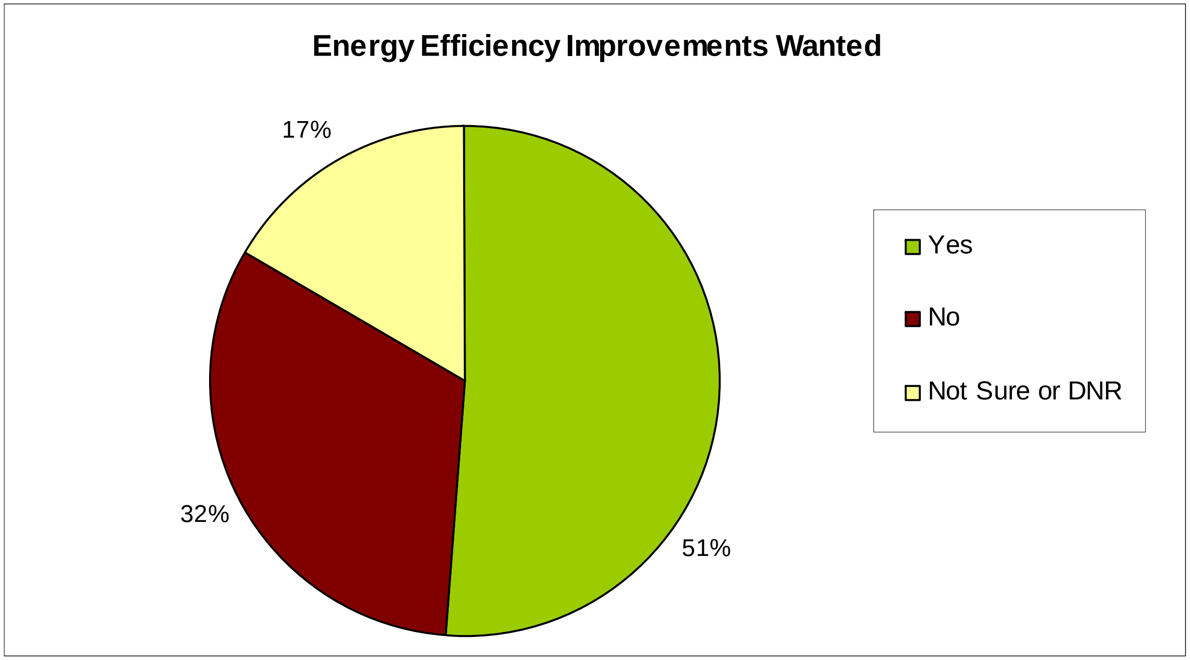
1.24. Accessibility Modifications

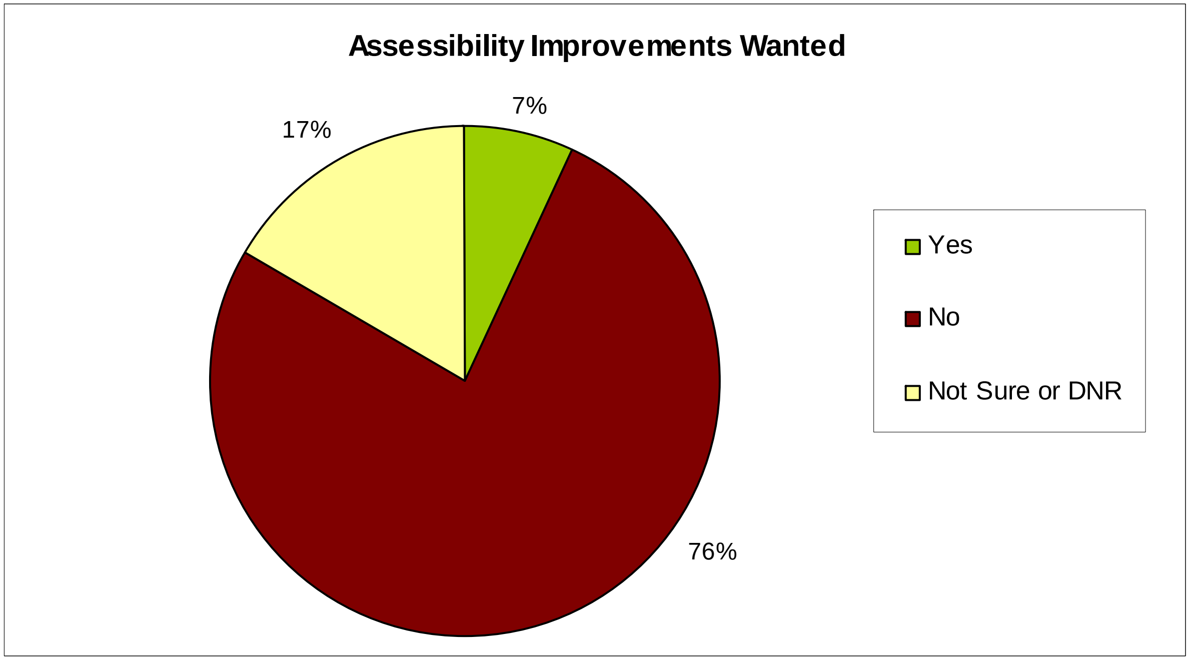
Most respondents (76%) were not interested in making accessibility improvements to their homes. However, 7% indicated they were. Projected over the whole Sitka community, 7% would represent 230 households.

Some respondents wrote that although they do not currently need the accessibility modifications, they would like to age in place and anticipate future needs for adaptations.

Survey Questions #8:
Do you want to make changes to your home to improve its energy efficiency?

Survey Questions #9:
Do you want to make changes to your home to improve its accessibiilty?

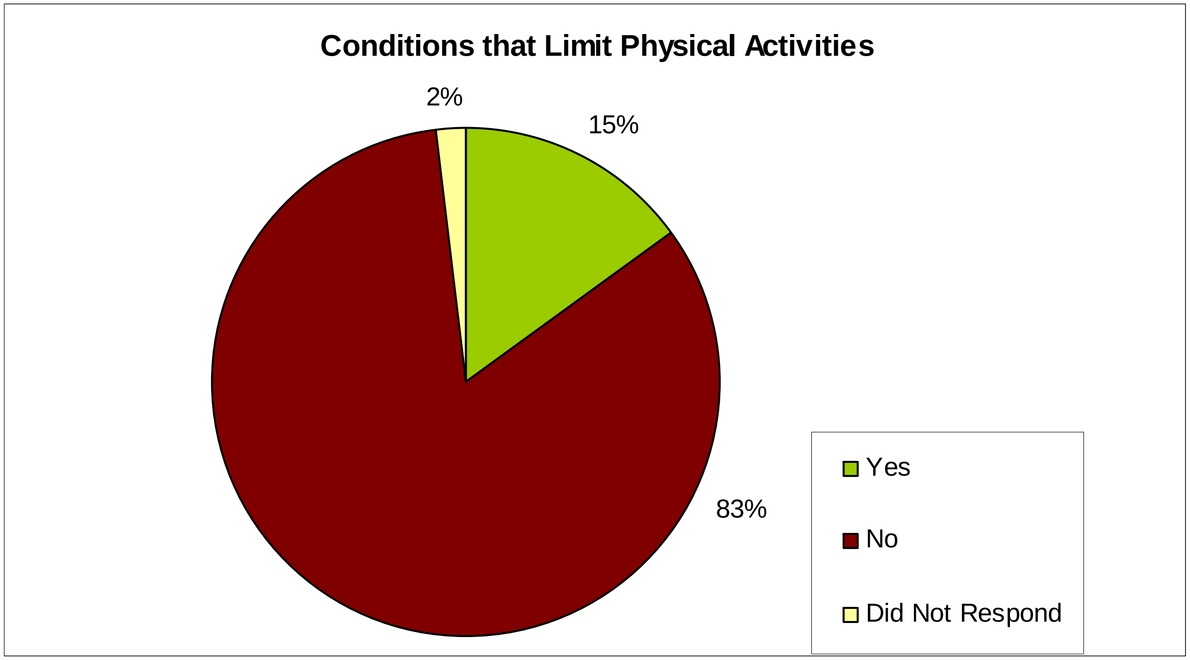




1.25. Disability

15% of respondents indicated that one or more persons in the household has a long-term condition that limits physical activities. It seems likely that this population would include households who have already made necessary accessibility modifications to accommodate any special needs and some households in the previous question who would like to make such modifications.

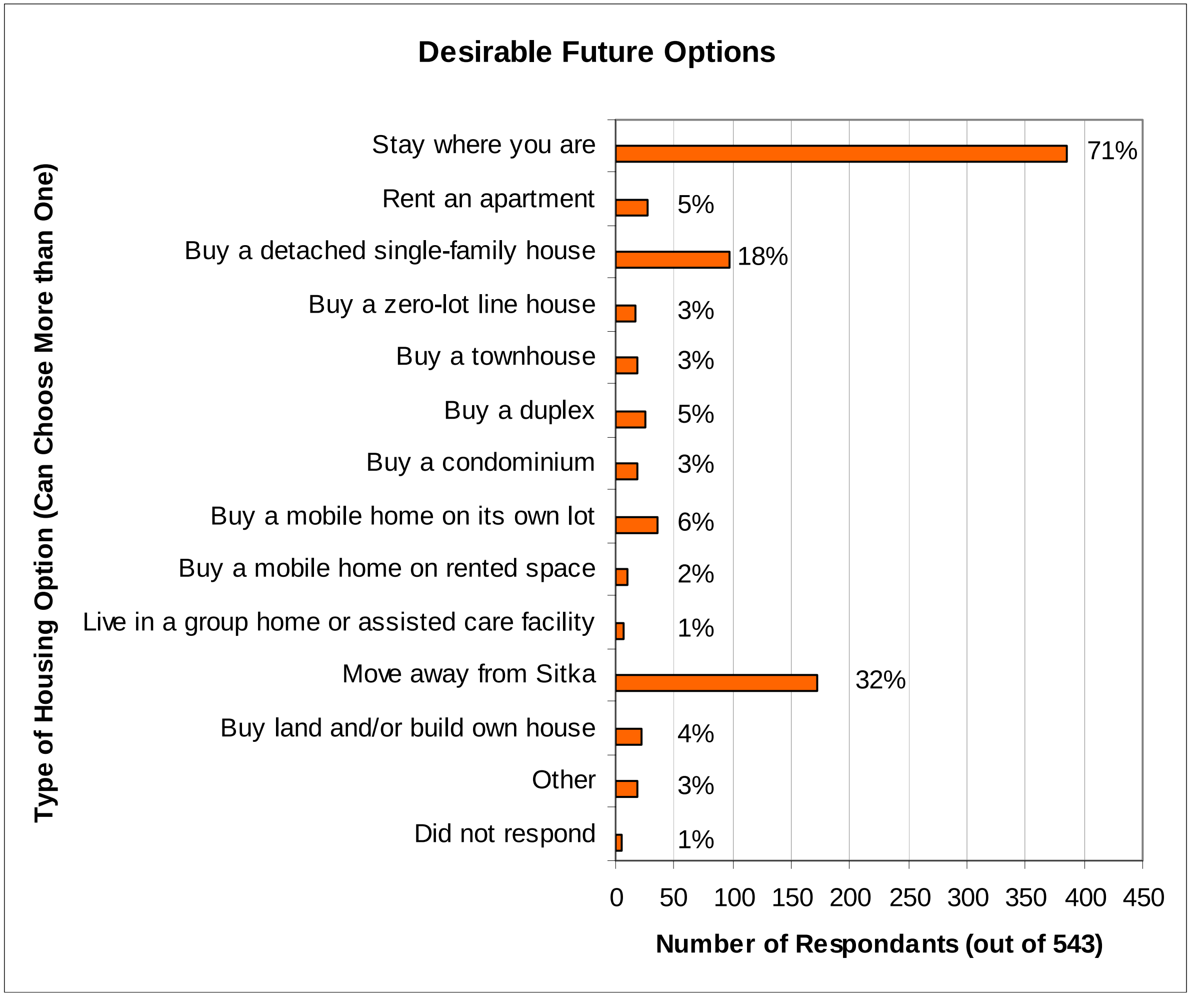
Survey Question #16:
Does anyone in the household have a long-lasting condition that substantially limits one or more basic physical activities such as walking, climbing stairs, reaching, lifting, or carrying?



1.26. Future Housing Options

Respondents were ask to choose from a list all desirable future housing options. The highest response at 71% was "stay where you are," and the next highest response at 32% was "move away from Sitka."

"Buy a detached single-family house" was a distant third at 18%. Interestingly, the sum of the four alternative home types (zero-lot line house, townhouse, duplex, and condominium) added up to 15%, which places them as a group in almost as high demand as the traditional single-family house.

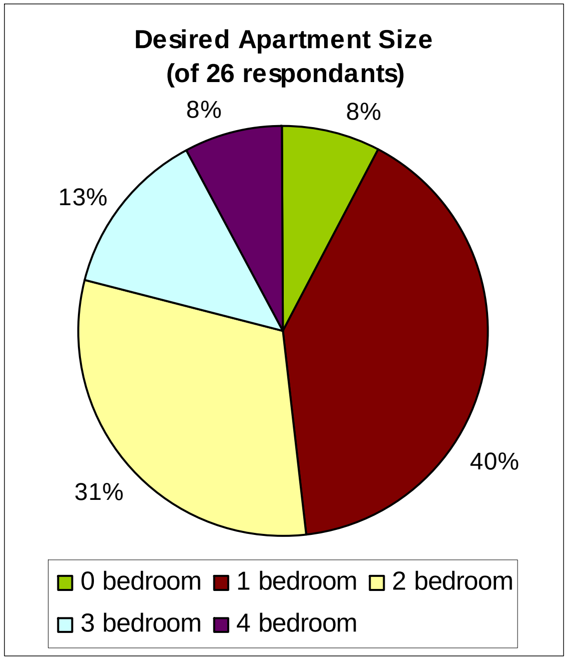


Survey Question #3:
Taking into consideration the current housing market and your household income, please mark one or more boxes below that you would strongly consider as desirable future housing options?

For "Rent an apartment"
How many bedrooms?

Apartment Size Desired

The number of respondents who checked "Rent an apartment" and filled out the number of bedroom desired was small at 26. Of this group, the average number of bedrooms was 1.73, and the most popular choices were 1- and 2-bedroom units.



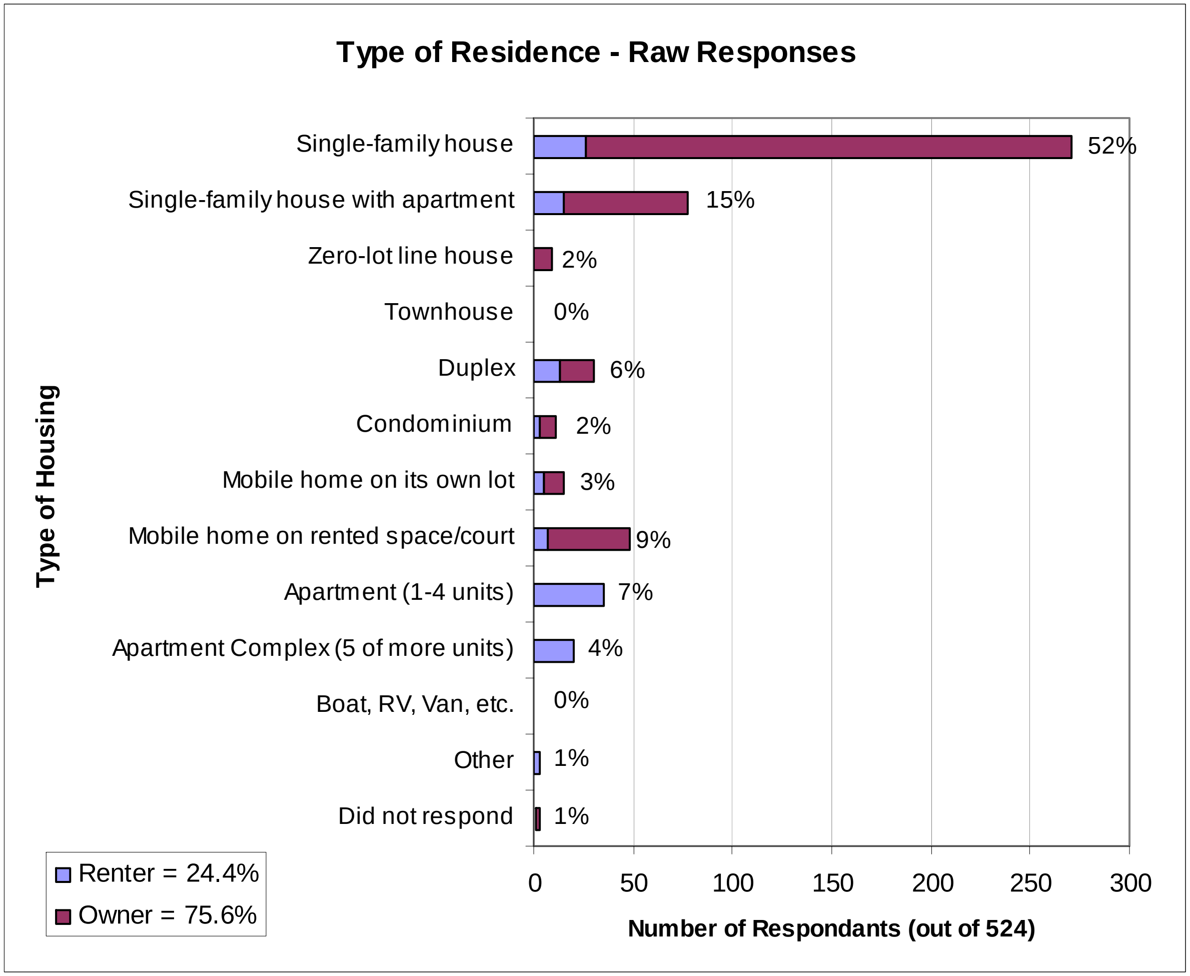
1.3 Housing Data

After finding out the respondents' opinions and preferences, we now examine their existing housing situation to see what types of homes they live in and how much they pay for them.

1.31. Current Home Type

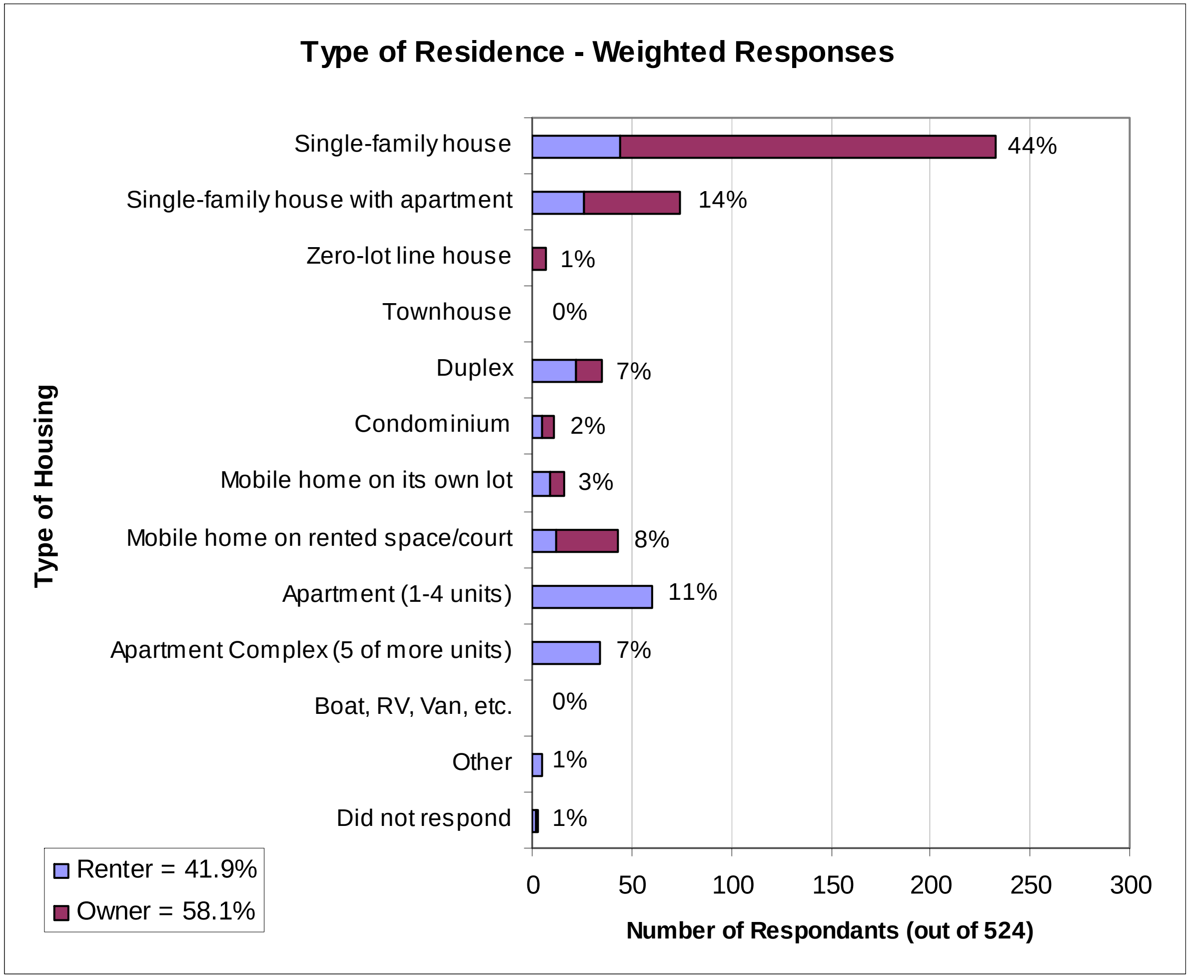
It is appropriate here to weigh the survey responses to produce the proper balance of renters and owners to look at the distribution of housing types in Sitka. The weighted result, shown on the opposite page.

Survey Question #6:
Which best describes your home?



The vast majority of households live in single-family houses (44%) or single-family houses with apartments (14%), combining for 58% of the housing stock. The sum of the four alternative home types (zero-lot line house, townhouse, duplex, and condominium) added up to only 10%, which is significantly less than the traditional single-family house.

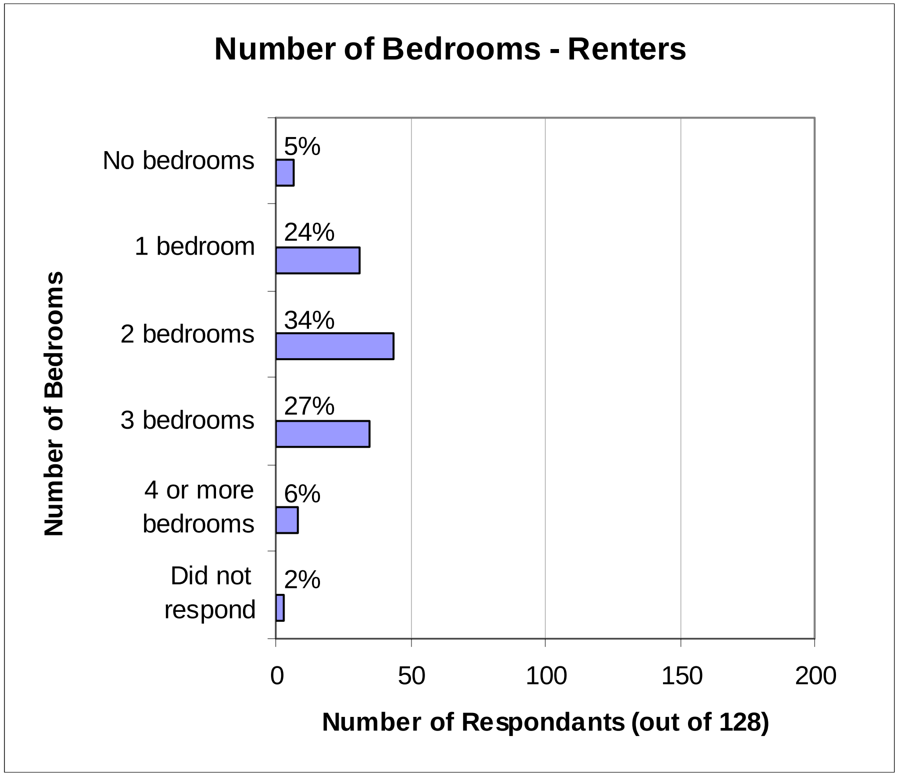
It is also interesting to note that of the single-family houses, roughly 19% are rentals.

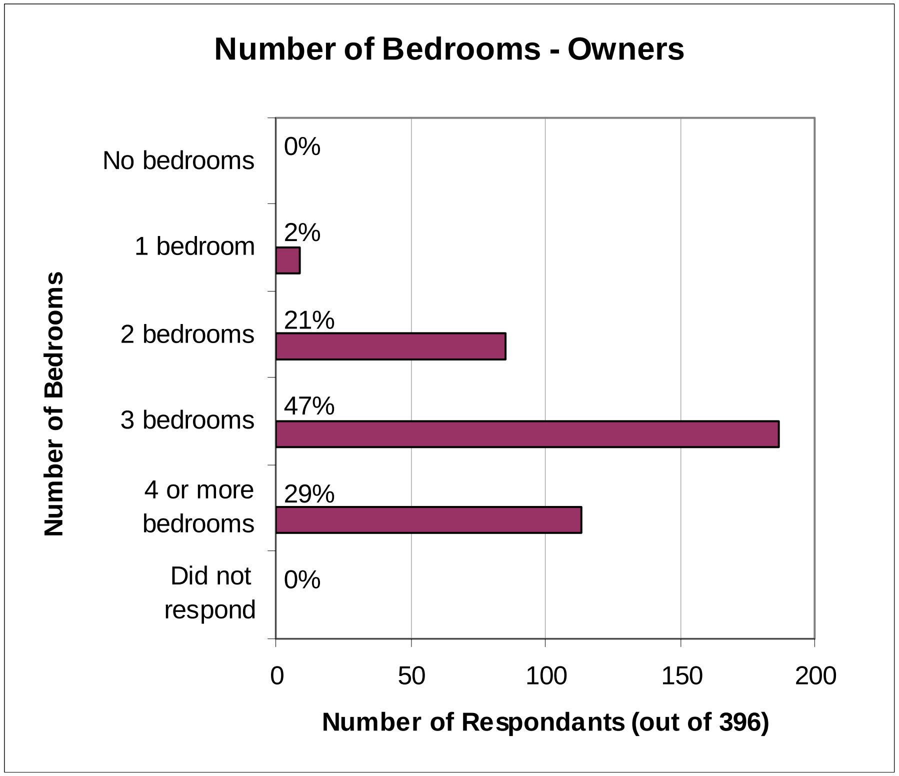


Survey Question #5:
How many bedrooms are in your home, that is, how many bedrooms would you list if your home were on the market for sale or rent?

1.32. Number of Bedrooms

In the case of number of bedrooms, renters and owners are again clearly different, as shown in the graphs below. The most frequent rentals units have 2 bedrooms. 3-bedroom units are closed to but just edges out 1-bedroom units. There are very few rental units with four or more bedrooms, and even fewer studios or efficiencies. Meanwhile, the most frequent owner units have 3 bedrooms. And there are more homes with 4 or more bedrooms than 1- and 2-bedroom owner units combined.





1.33. Permanent or Seasonal

The question regarding permanent versus seasonal housing was not useful because actual vacation homes or seasonal rentals were likely vacant during the winter and the surveys non-responsive. On occasion, I hand-delivered letters to the physical address and found empty homes with unshoveled walks and driveways.

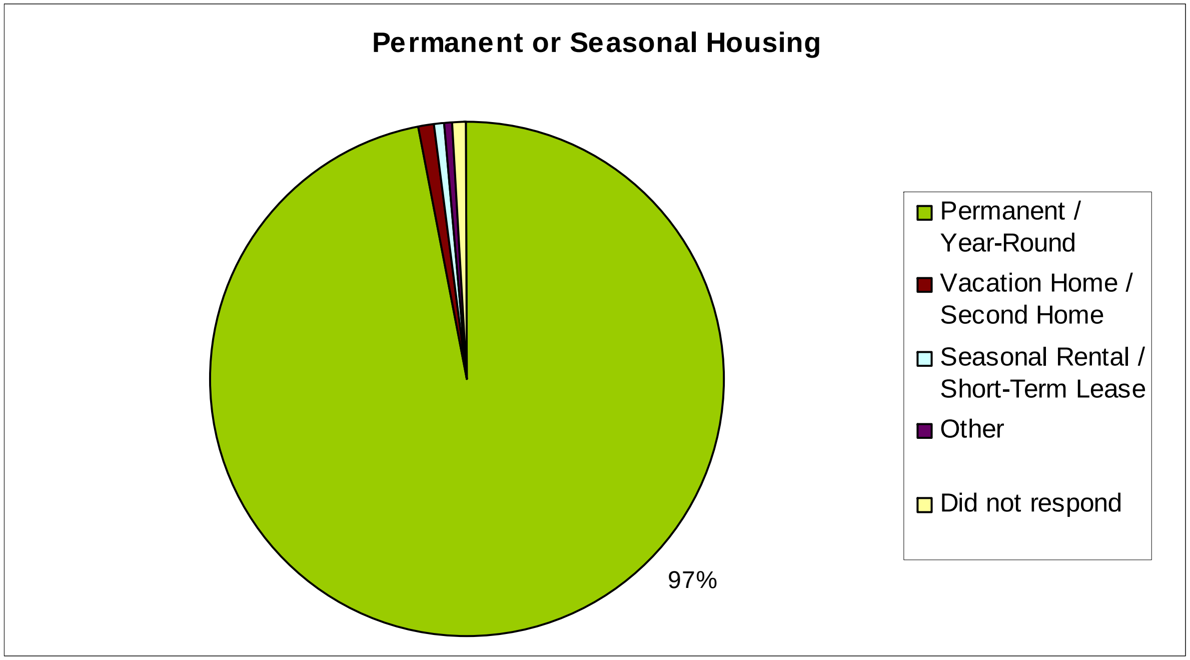
1.34. Housing Stock Condition

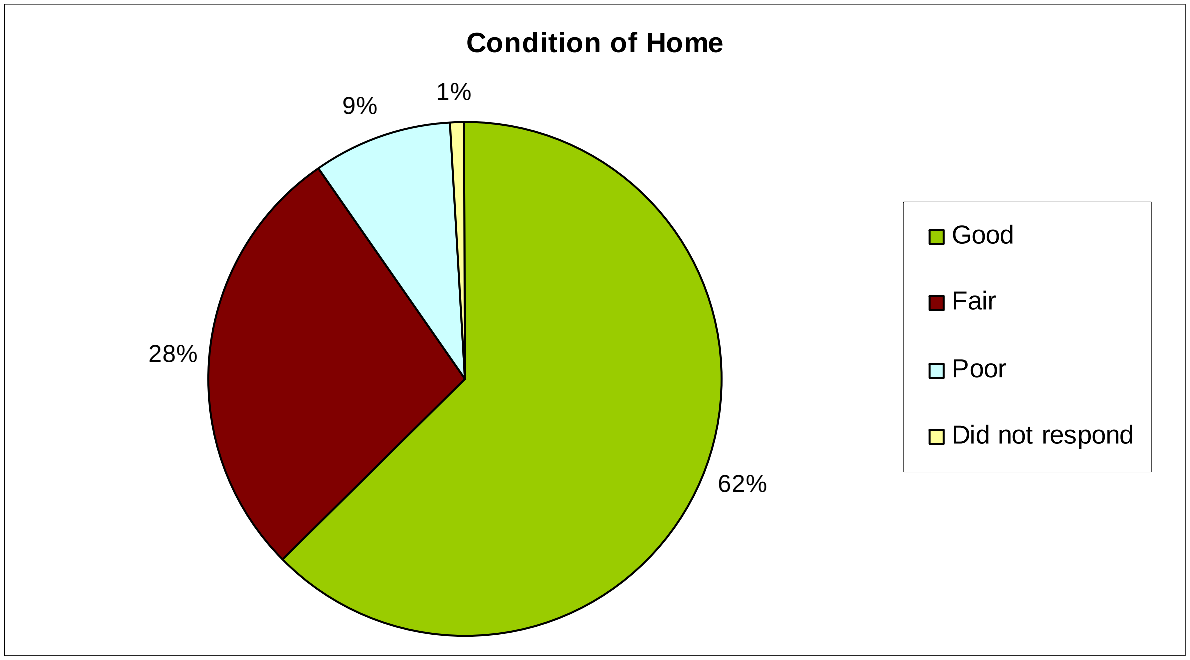
The subjective and self-reported condition of the Sitka housing stock appears to be good (62%). Only 9% needed major repairs. This statistic was not further analyzed.

Survey Question #7:
Is this a permanent or seasonal (less than 9 months annually) residence?

Survey Question #10:
How would you rate the condition of your home?

Good - safe and decent
Fair - in need of some minor repairs
Poor - in need of major repairs





Survey Question #11:
Please estimate your average monthly housing costs.

a) Rental
(i) Monthly Rent = $_____
✓ if sales tax is included in rent
✓ if landlord pays part or all of utilities (electricity, garbage, water/ sewer, and heating fuel)
✓ if you get housing assistance
(ii) Your part of Utilities = $_____
(iii) Other: _____ = $_____

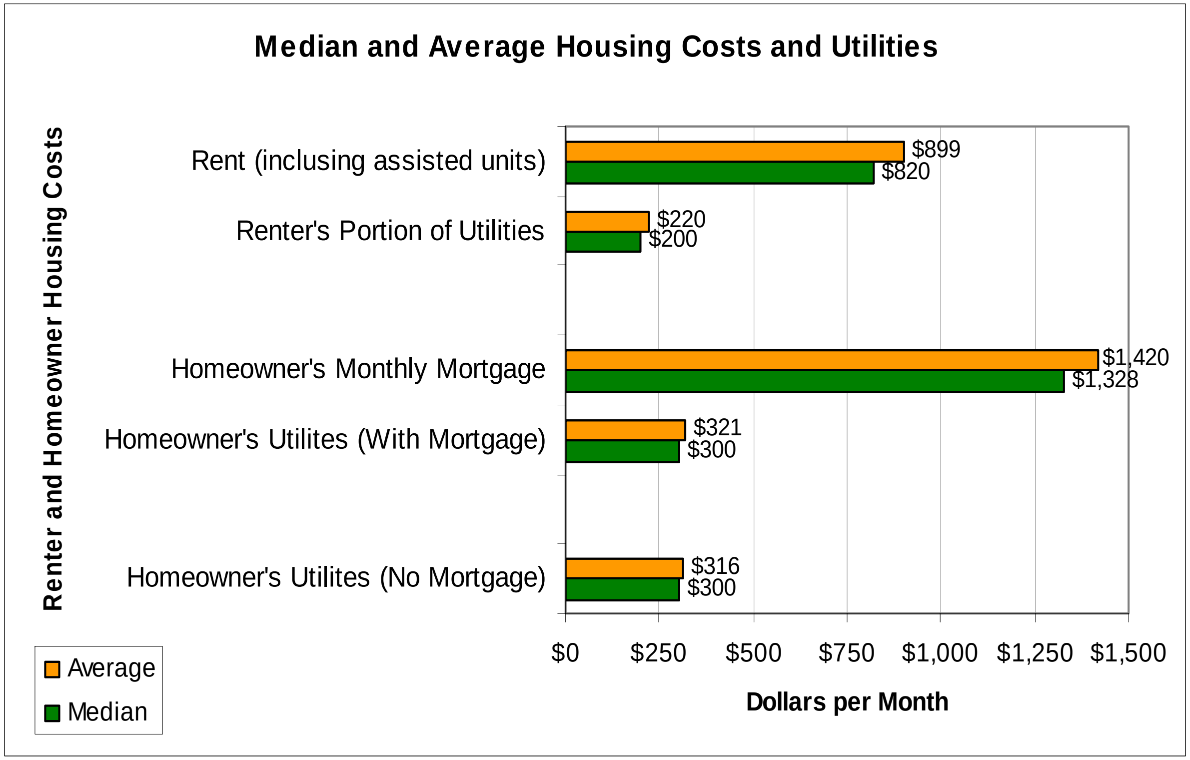
b) Owned - with Mortgage or Loan
(i) Mortgage Payment = $_____
✓ if property tax is included
✓ if home insurance is included
(ii) Monthly Utilities = $_____
(average for electricity, garbage, water/sewer, and heating fuel)
(iii) Second Mortgage / Line of Credit / Equity Loan Payment = $_____
(iv) Other: _____ = $_____
(such as Homeowner Association or Condo fees, trailer court rent, etc.)

c) Owned - No Mortgage
(i) Monthly Utilities = $_____
(average for electricity, garbage, water/sewer, and heating fuel)
(iv) Other: _____ = $_____
(such as Homeowner Association or Condo fees, trailer court rent, etc.)

1.36. Housing Costs

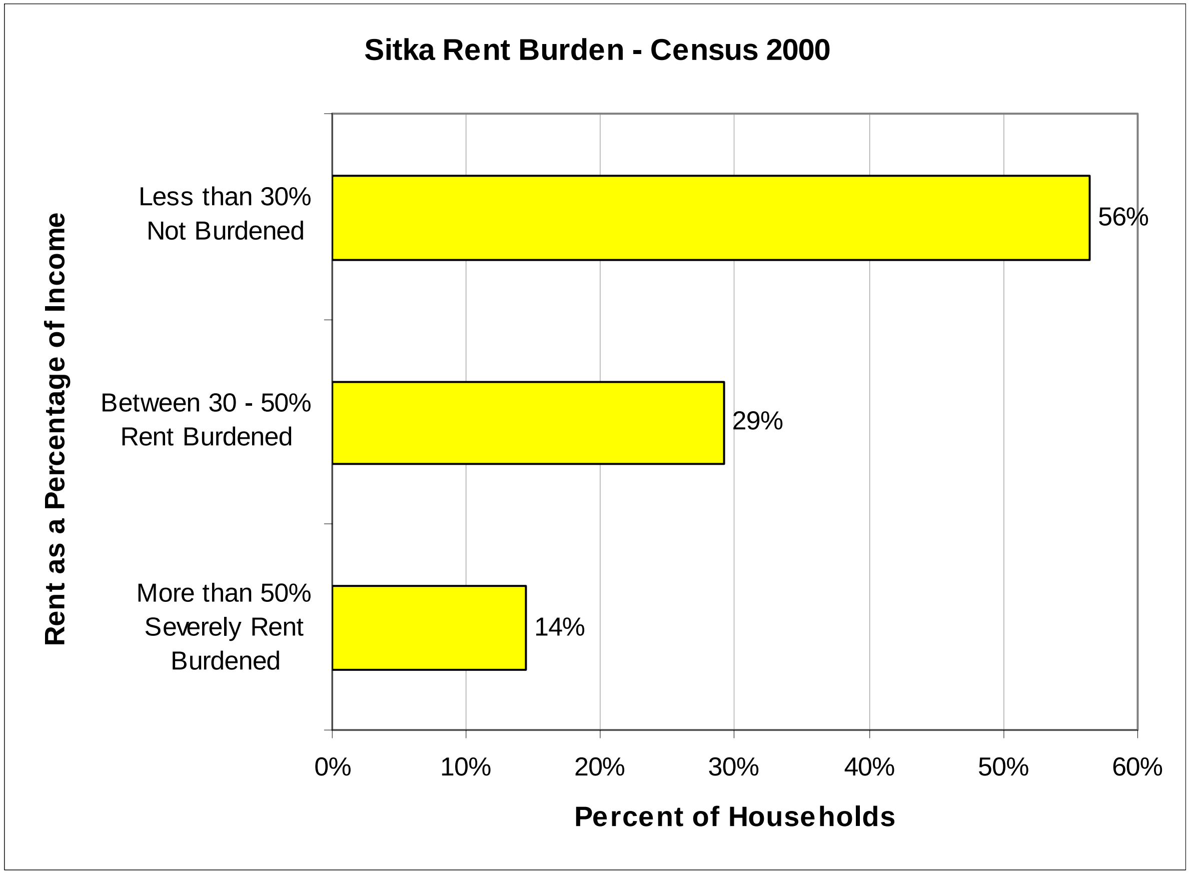
The collection of housing costs data is difficult because the many components that make up the total housing cost are accounted for differently by different households. For example, some mortgages include principal, interest, property tax, and home insurance, while others count them separately. Some rents include sales tax and utilities, while others include only heat or receive housing assistance. There is undoubtedly a reliability problem with the housing costs data collected in the survey.

However, it is probably still roughly representative. Averages and medians of rent, mortgage, and utilities, as shown in the graph below, came with 10% of one another. It is probably safe to estimate that renters in the middle are paying between $820 - $900 for rent, the average including rentals receiving housing assistance, while owners in the middle are paying between $1330 - 1420 for mortgage. Owners also pay about $300 a month for utilities, while renters pay less at about $200 a month, probably because units are smaller and some landlords cover part or all of the utilities.



1.4. Housing Cost Burden

Housing cost burden is defined as paying more than 30% of the household income for housing costs. Severe burden is paying more than 50% of income for housing costs. Census 2000 data reveals that 44% of Sitkan renters were burdened in 1999. That number has most likely increased since then.



1.5. Housing Gap

In addition to the useful information each question in the Housing Survey revealed, two further observations can be pieced together to analyze the gaps in the Sitka housing stock.

First, household size (1.13) and number of bedrooms (1.32) seem to be mismatched. 1-, 2-, and 3-person households make up 75% of all households, yet 3- and 4-bedroom homes make up 76% of the owner-occupied units. Part of the reason is that household sizes have been decreasing over time, and the older homes were constructed for larger households. However, new construction has also been trending toward larger homes, further exacerbating the affordability problem for small households who don't need the space.

Second, desired housing types (1.26) and existing housing types (1.31) also seem to be mismatched. A detached, single-family house was selected by 18% of respondents as a desirable future option, and alternative housing types that included zero-lot line house, townhouse, duplex, and condominiums, was selected by 15% of respondents. Meanwhile, the existing housing stock consists of 58% single-family houses but only 10% alternative types. This mismatch limits the options for households who are willing to buy homes other than single-family houses.

In conclusion, the data collected through the Housing Survey contained some useful information in taking a snapshot of the Sitka housing market and revealing areas that need some attention. The raw data, in both Excel and SPSS formats, are available to the public to conduct more detailed analyses. Please contact Felix AuYeung, Affordable Housing Program Manager, at 907-747-4800 or felix@cityofsitka.com to obtain a copy.

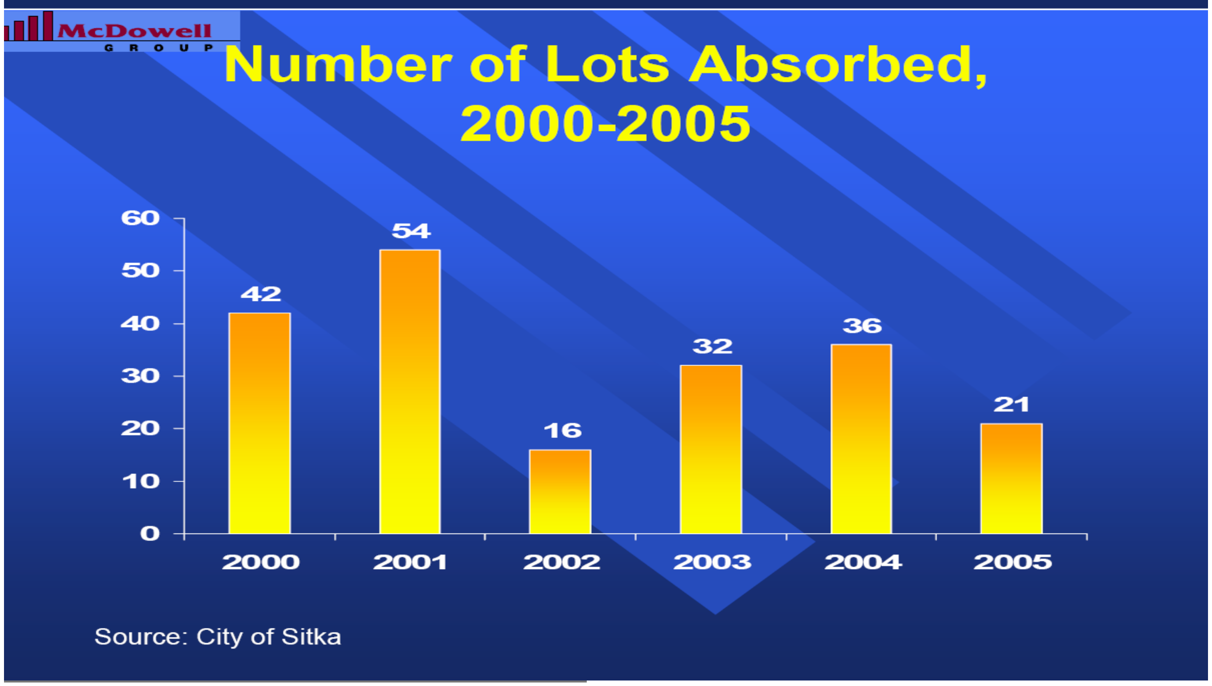
2. Market Analysis and National Trends

Sitka is not alone. Researcher and the American public have been perplexed in their attempt to explain why housing prices across the country have soared in the last 7 years, whether a housing bubble exists, and what would happen to the economy when variable rate and equity loans bite back. I do not offer definitive answers to these puzzling questions.

However, a review of housing literature offers some possible explanations, and as usual with socio-economic research, the answers are complex, inter-dependent, and most likely a convergence of multiple reasons. Certainly, very low interest rates have effectively made homes "cheaper" and allowed more families access to the market. (Rosen, 2005) But are there other larger macro-economic factors at work?

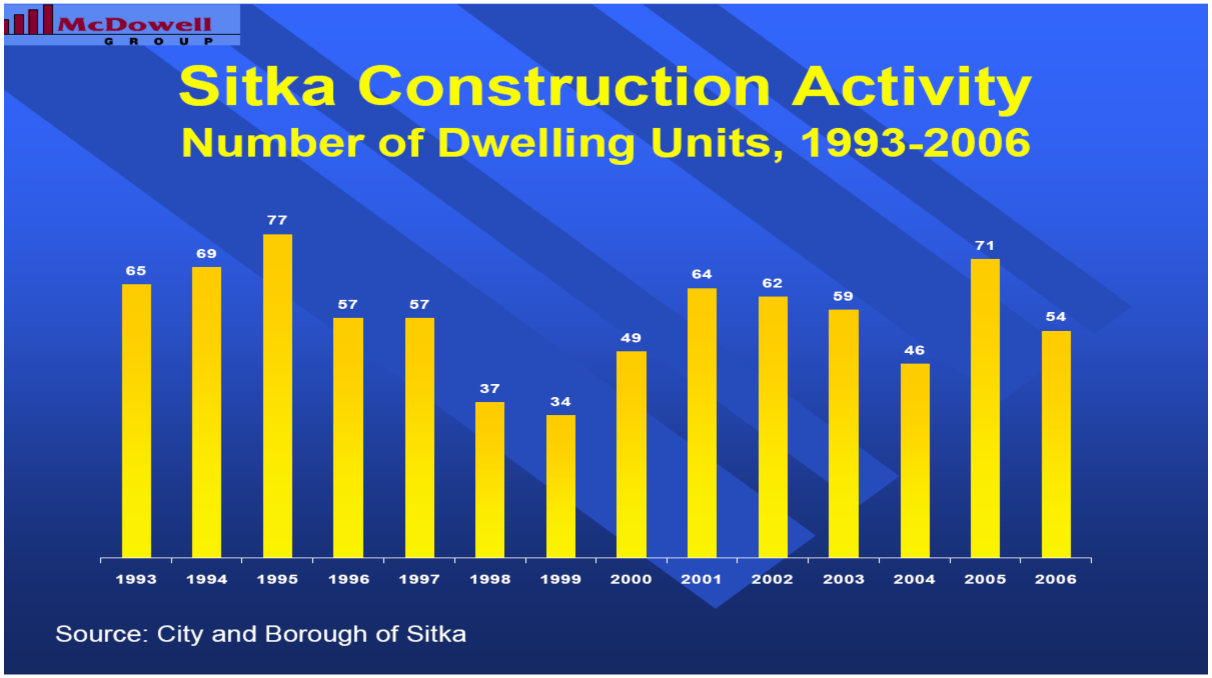
The Joint Center for Housing Studies at Harvard University has published a comprehensive report titled "The State of the Nation's Housing 2006," in which it described many national trends and offered plausible explanations. More importantly, it is how Sitka relates to these trends and explanations that is of interest to this community. What factors are driving home prices up and how does Sitka relate to these factors?

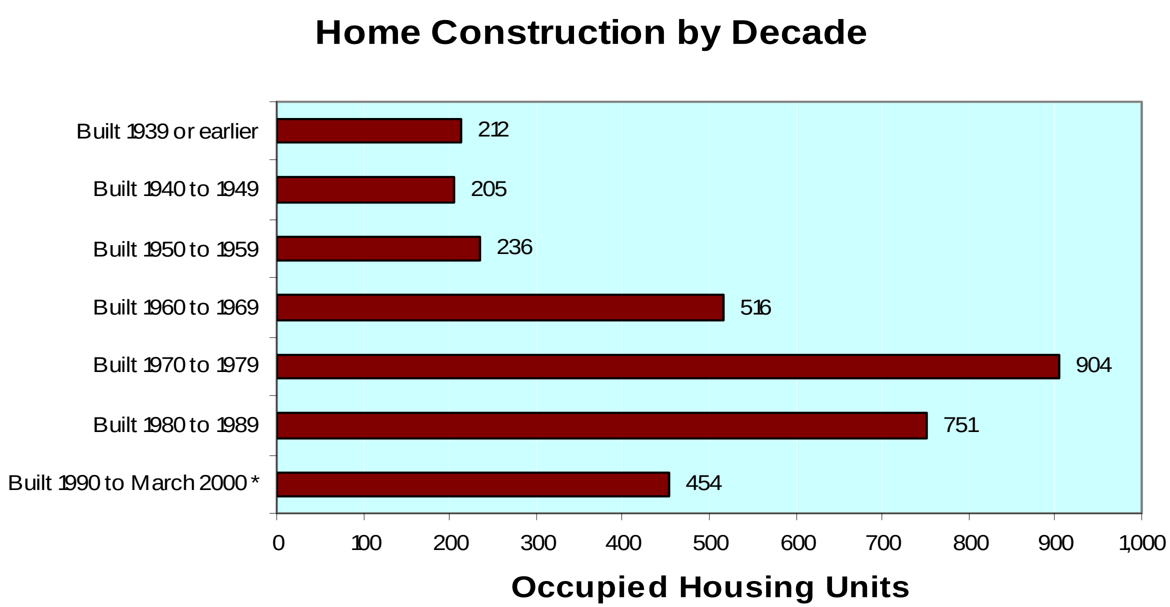
This section of the report will look at how the recent concentration of wealth of historic proportions is driving investor and vacation home demand and impacting housing costs nationwide. Having a reasonable understanding of the many causes of the price escalation will be necessary in formulating an effective local response to address the problem.



Sitka is certainly in a curious situation. Its population has been stable over the past decade, and new construction activities and number of lots absorbed annually have been healthy and consistent. With the same population and more units, why are Sitka's housing prices rising so dramatically?

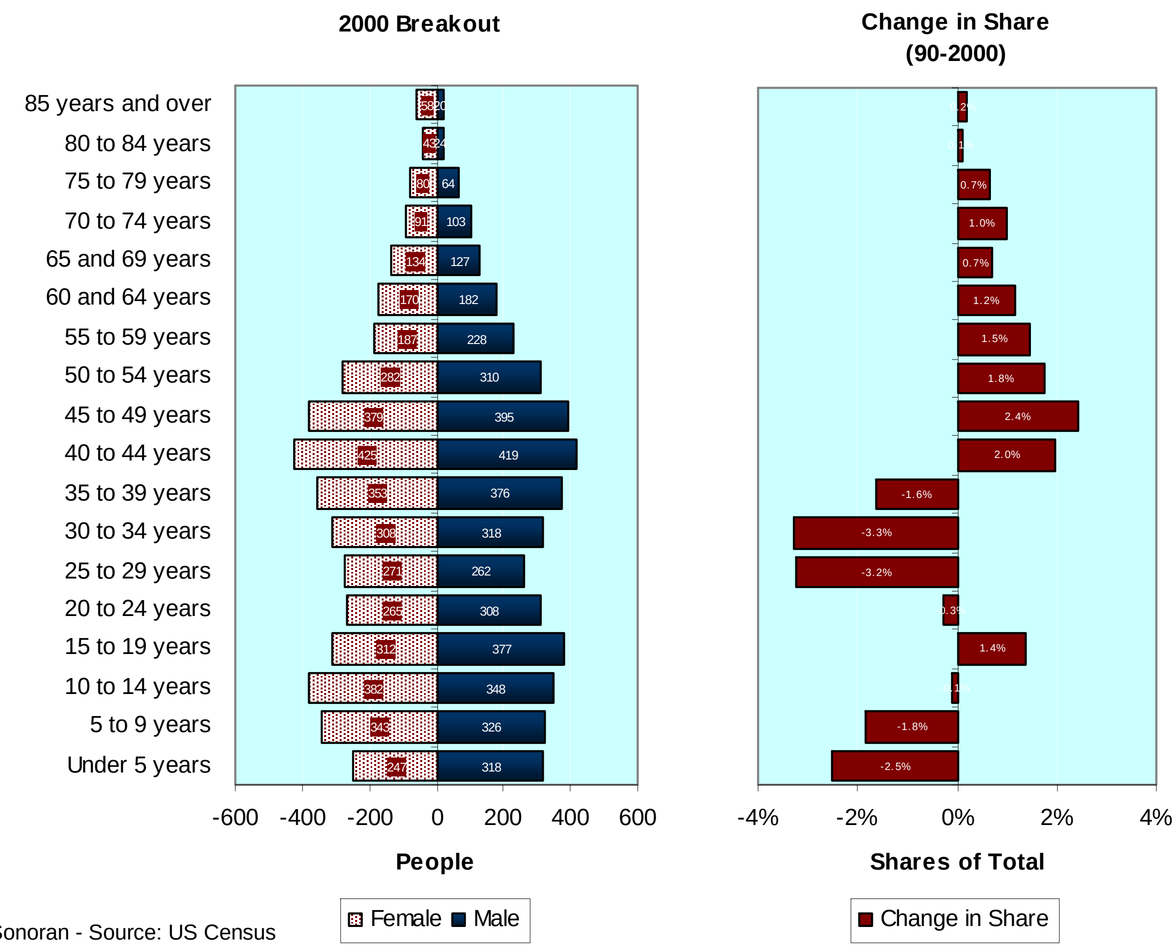
The problem Sitka faces is not contained nicely in a closed boundary condition. Sitka's local market is not entirely isolated from regional and national supply and demand issues. Thus, Sitka's housing affordability problem extends beyond just local causes.





Sonoran - Source: US Census

While Sitka's overall population has been stable, a quick look at changes within the age distribution reveals that between the 1990 and 2000 Census, Sitka was losing young people between the ages of 25 to 39, and their kids under 10. There are two interesting caveats from this observation. First, the loss of young families is a potential sign of income and housing price problems. Young people starting their careers are less establish and earn less income, and if the cost of living is simultaneously high, they tend to flow to other places where either their income is higher or costs are lower, or both. Second, part of the population shift may be accounted for by the baby boomer generation having aged a decade, which leads us to the growing wealth and growing disparity.



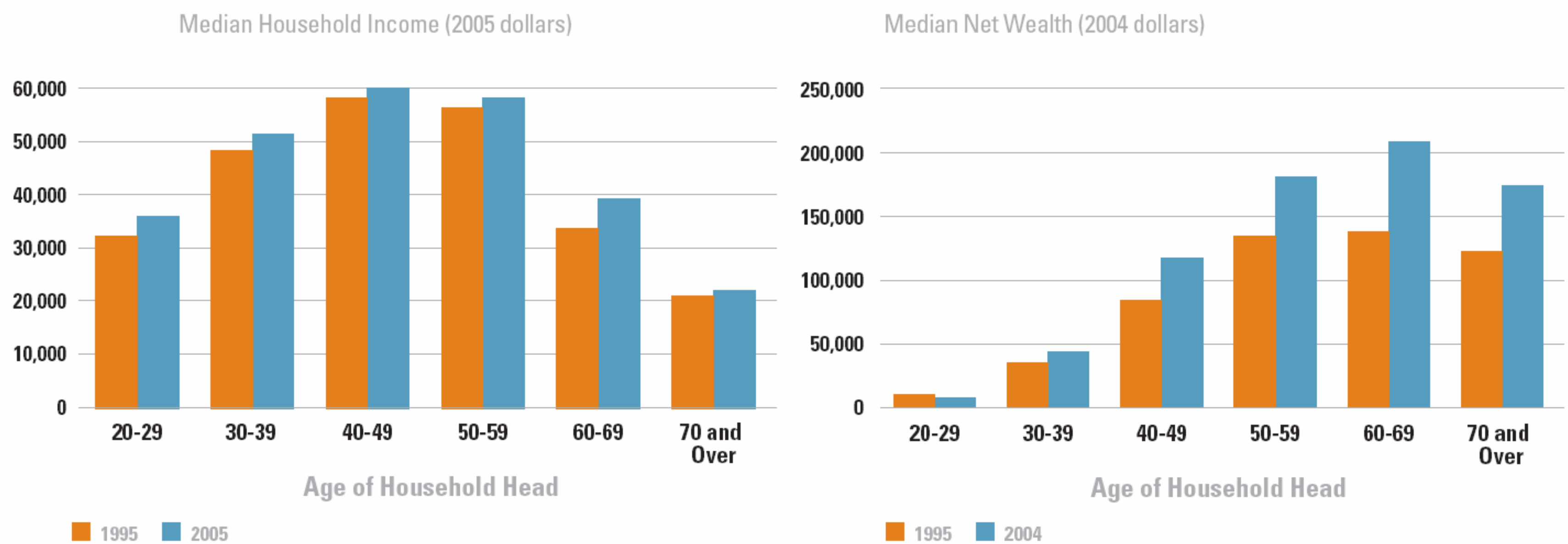
Sonoran - Source: US Census

2.1. Growing Wealth and Disparity

According to data from the report "The State of the Nation's Housing, 2006," produced by the Joint Center for Housing Studies of Harvard University, each generation is faring better than the one before it. The left graph below shows every age group gained in median income over the past decade. The right graph shows every age group except 20-29 also gained in median net wealth, but with ages 50 and over gaining much more.

> *"Together with historically low interest rates, all of these changes have made American households more willing to take on more mortgage debt and carry it later in life. Each successive generation now has more mortgage debt than the previous one at the same age." (Harvard, 2006)*

Figure 16 Each Generation Is Setting New Records for Income… …And Especially for Wealth



Note: All dollar values are adjusted for inflation using the CPI-UX for All Items.
Source: JCHS tabulations of the 1995 and 2005 Current Population Surveys.

Note: All dollar values are adjusted using Survey of Consumer Finances methods.
Source: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

However, income and wealth gains were experienced by all. Aggregate measurements such as median, average, or total often hide distributional unevenness quantified by variance and deviation. If the overall population were subdivided, for example by quartiles as in the graphs below, the distribution of gains becomes much more obvious.

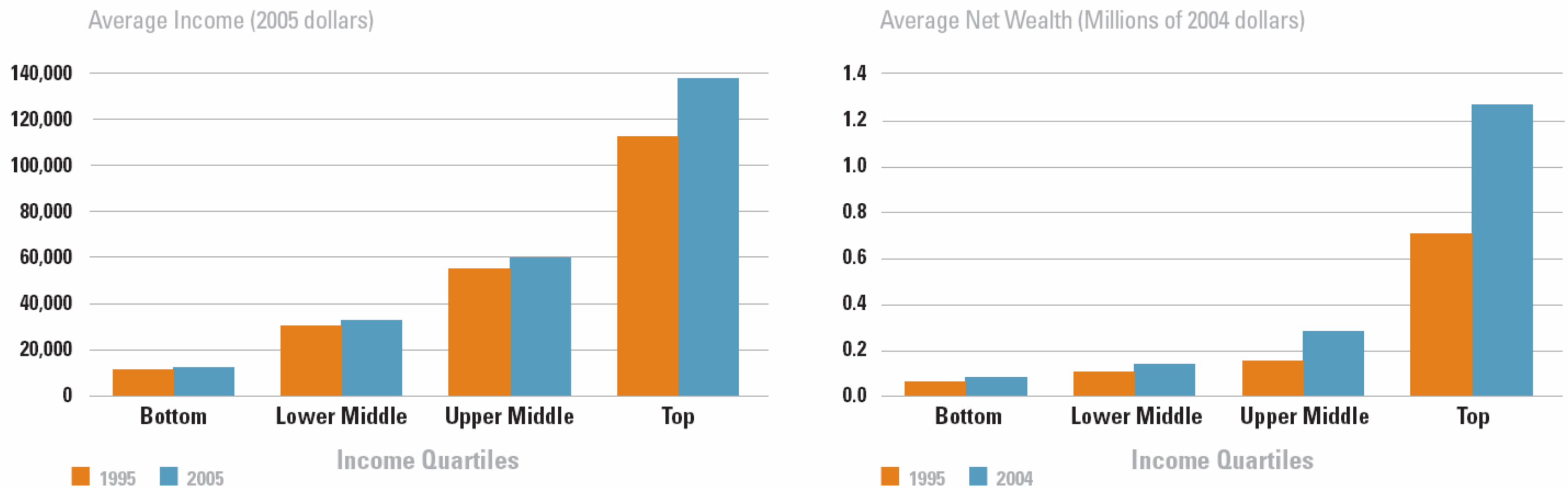
> *"Low- and middle-income households are increasingly giving up share of the expanding national pie to the richest households." (Harvard, 2006)*

Nationally, the top 10% have incomes $129,000 and up, median net wealth $910,000, and average net wealth $2,500,000.* The next 10% have incomes $89,000 and up, and median net wealth $297,000. (Harvard, 2006)

* Note:
When the average is substantially larger than the median, it suggests the distribution is severely skewed to the upper end, which pulls the average up.

> *"As a result, the top fifth of households in the income distribution now accounts for 51 percent of all remodeling expenditures, 69 percent of vacation home owners, and 99 percent of those with at least two homes for seasonal or recreational use." (Harvard, 2006)*

Figure 17 …But Household Incomes and Wealth Are Growing Strongly Only at the Top



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Income values are adjusted for inflation using the CPI-UX for All Items. Wealth values are adjusted for inflation using Survey of Consumer Finances methods.
Source: JCHS tabulations of the 1995 and 2005 Current Population Surveys, and the 1995 and 2004 Surveys of Consumer Finances.

Bringing the national picture down to the state, the Alaska Department of Labor & Workforce Development observed in the graph below that although nominal wages have been rising, real wages, which are adjusted for inflation, have been stagnant.

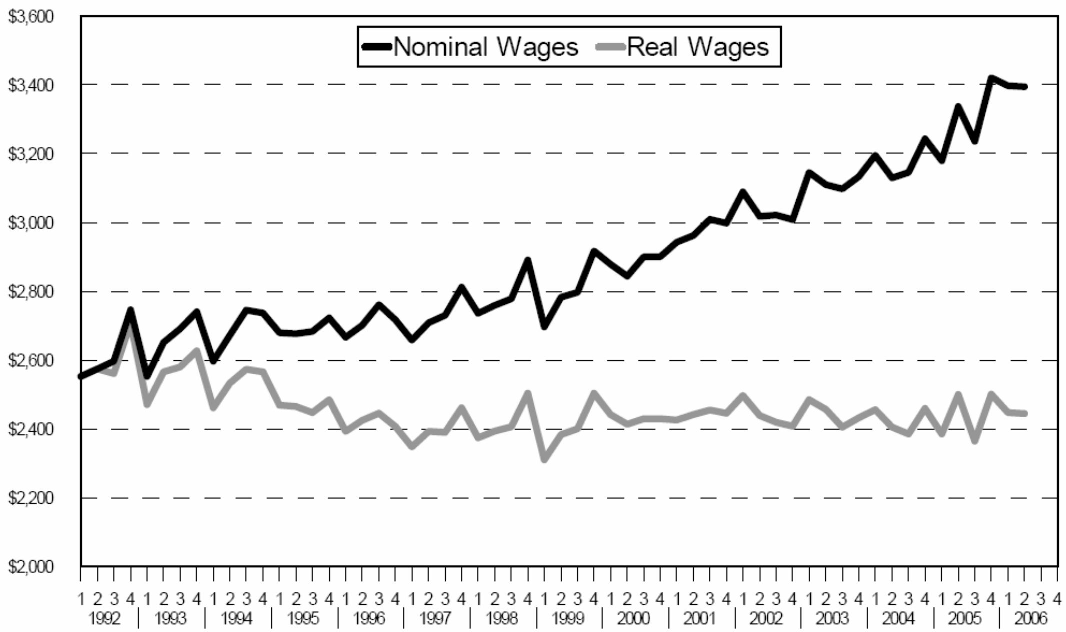
This finding corresponds with the national trend reported by the McClatchy Newspapers study that median household income for working-age families, once adjusted for inflation, has fallen for five straight years from 2000 to 2005. During the same period, the poverty population grew in record numbers. (USA Today, 2007)

It is against this bi-polar backdrop that the nation finds its housing prices soaring.

Average Monthly Wage

Statewide

1st Qtr 1992 - 2nd Qtr 2006



Note: Wages for the most recent quarter are preliminary. Real wages are determined by factoring in the Anchorage Consumer Price Index with a base year of 1992.
Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section.

"The surge in poverty comes alongside an unusual economic expansion.

"'Worker productivity has increased dramatically since the brief recession of 2001, but wages and job growth have lagged behind. At the same time, the share of national income going to corporate profits has dwarfed the amount going to wages and salaries,' the [McClatchy Newspapers] study found.

"'That helps explain why the median household income for working-age families, adjusted for inflation, has fallen for five straight years [between 2000 and 2005].'

"'These and other factors have helped push 43% of the nation's 37 million poor people into deep poverty—the highest rate since at least 1975.'" (USA Today, 2007)

2.2. Demand

“Incomes at the top are increasing much faster than those at the bottom and in the middle. These differences will likely drive rapid growth in the burgeoning luxury sector of the housing market, but present stubborn affordability challenges for households with low and moderate incomes.” (Harvard, 2006)

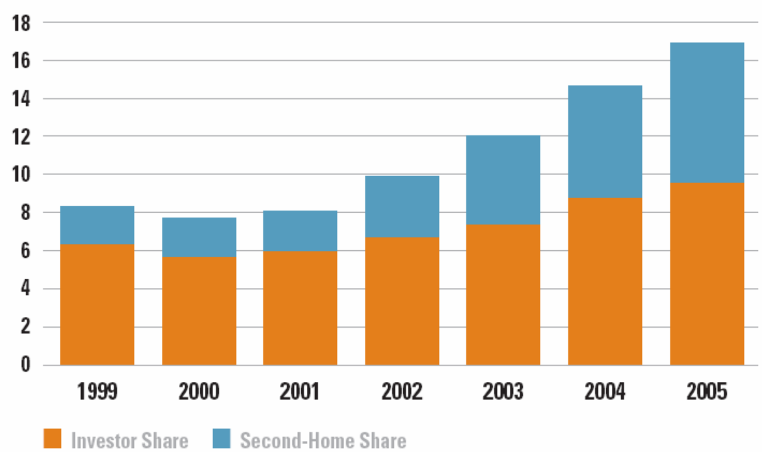
Sitka’s local economy may not be insulated from national demand, particularly in the case of second homes that could be either investor or vacation homes. The local housing market should not be considered as a closed-boundary condition.

2.21. Investor and Vacation Homes

“Unsurprisingly, a large fraction of these [top 20%] households own more than one home, and many have rental property from which they derive substantial income.” (Harvard, 2006)

Figure 9 Investor and Second-Home Demand Has Boosted Home Sales

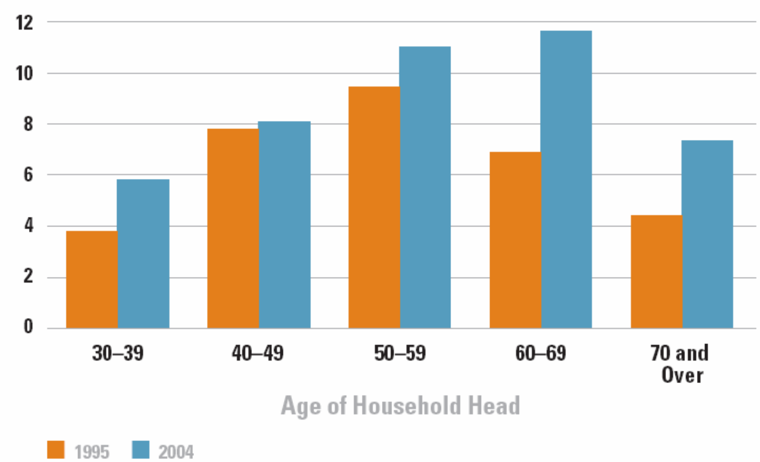
Share of Prime Loan Origination Volume (Percent)



Source: LoanPerformance.

Figure 20 Increasing Shares of Households of All Ages Own Second Homes

Share of Homeowners with Second Homes (Percent)



Note: Second homes include fractional ownership in timeshares and vacation properties.
Source: Table A-10.

Second home demand has boosted home sales, as the left graph on the opposite page shows, and has more than doubled from 2000 to 2005 in most markets. While estimates may be inconsistent, ownership of second homes is clearly on the rise. (Harvard, 2006)

> *"Even new homes were a target for investors, especially in the hottest housing markets. Nationally, investors bought 4 percent of single-family homes built and 13 percent of condos sold by companies surveyed by the National Association of Home Builders in June 2005. But in the 30 large markets that posted the fastest price appreciation, investors snapped up an average of 11 percent of new single-family homes and 15 percent of condos." (Harvard, 2006)*

The National Association of Realtors found the surge in the second-home market accounted for more than one third of residential transactions. 23% of all homes purchased in 2004 were for investment, of which 79% were single-family homes with a median size of 1,700 square feet. Another 13% were vacation homes, of which 83% were detached single-family homes with a median size of 1,290 square feet. (California Association of Realtors, 2005)

> *"'Because the typical second-home buyer is a baby boomer, it's likely over the next decade that second-home sales will remain historically high,' [Chief Economist, National Association of Realtors, David] Lereah said. 'The boomers are still in their peak earning years and have both the wherewithal and the desire to purchase vacation homes and investment properties.'" (California Association of Realtors, 2006)*

Returning locally, data from the City and Borough of Sitka Assessor's Office recorded 95 real estate transactions in 2005, including single-family homes, single family homes with apartments, duplexes, townhomes, and condominiums, and excluding multi-family apartments, commercial properties, land transactions, and homes that subsequently resold after 2005. Of these 95 eligible properties:

18 homes have utility bills that do not match the property owner;
3 homes have matching utility bills that are mailed out of town; and
2 owner-occupied homes have owners who own and rent out other properties.

Thus, of the single-family properties purchased in 2005, 21 or 95 (or 22%) are not owner-occupied. This number matches closely with the weighted, cross-tabulated result from the Housing Survey, which revealed about 19% of single-family homes were occupied by renters. The survey did not accurately represent vacation homes due to its methodology.

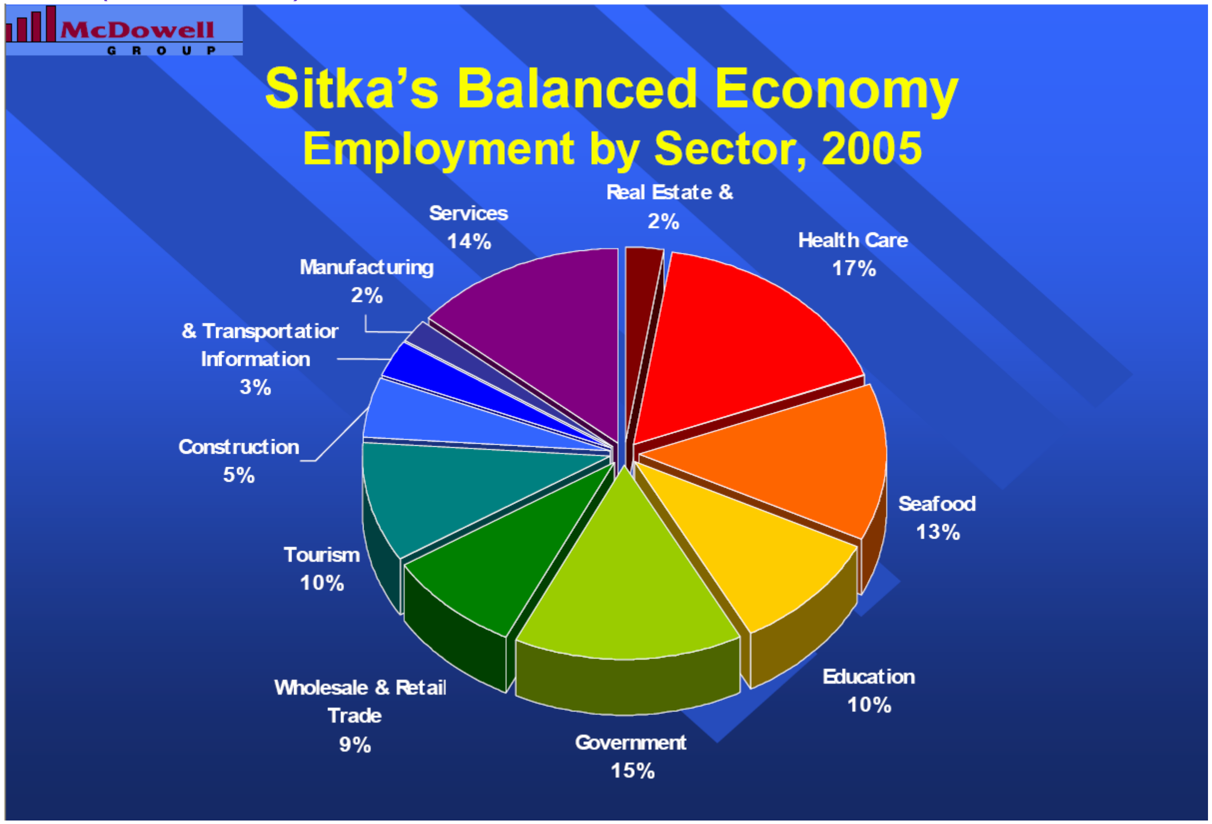
2.22. Low-Wage Employment

On the other end of the spectrum, low-income families place demand on primary residences but lack the resources to drive the market.

> *"While explanations vary, evidence is mounting that the two principal forces behind housing affordability problems are restrictions on residential development and the growth in low-wage and part-time employment."*

> *"The concentration of jobs at the low end of the wage distribution is unlikely to change. In fact, growth in the number of jobs paying wages in the middle range has lagged for a long time. A recent National Bureau of Economic Research study confirms this U-shaped distribution, with rapid growth over the 1990s in the share of jobs paying either below the 20th percentile or above the 65th percentile of wages, and declines in the middle."*
> *(Harvard, 2006)*

Sitka is fortunate to have a balanced economy. Where some industries such as seafood, retail, tourism, and services have the above described U-shape distribution of wages, other industries such as health care, education, government are stronger in the middle income.



"The forces at work on both the supply and demand sides of the housing market have made conditions especially difficult for working families with children. Clearly, having a job no longer guarantees the ability to pay for housing and other necessities, to save for the future, and to provide for children's needs." (Harvard, 2006)

2.3. Supply

Various restrictions on residential development are cited as a reason for the rise in housing prices. (Glaeser, et. al., 2005) And Sitka certainly has some level of restriction, primarily in the availability of land. Much of the flat, easily buildable land has been consumed, and the large tracts remaining are more marginal, often in wetland or on steep slope.

Therefore, the simple release of new land may not have any impact on affordable housing, if the lots are expensive to prepare. Density in new land development will be a key in lowering the per lot costs and allowing for more affordable options to go on it. In addition to site improvement costs, however, the simple release of new land still may not have any impact on affordable housing if developers choose to build expensive homes on it or nothing at all.

Adding large and expensive individual units to the market does not apply any pressure to reducing prices at the lower end. Entry-level homes will remain overpriced unless more entry-level homes are produced. Even when affordable options are available, they still may not get built. Money drives the market, and as long as there is high-end demand, be it local or external, entry-level homes and their lower margins will not receive priority in the market.

To my surprise, the Assessor's Office provided an unfiltered list of vacant parcels in Sitka that ran over 300 parcels long. There are numerous reasons why vacant parcels remain vacant even in a tight market. Some of these same reasons will come into play with the simple release of new land. The City and Borough of Sitka has disposed of a number of properties over the past years, and few units, let alone affordable, resulted from these simple releases to the market.

In short, land by itself is a necessary but insufficient condition to return affordability back to the market. There is an absolute need to be deliberate in using land.

Finally, the supply issue is not limited to the local context. If the supply of second homes, both investment homes and vacation homes, are limited, expensive, or less desirable outside of Sitka, it makes Sitka that much more attractive. The simple increase in supply of homes locally may not be sufficient to impact the local market and may not even be enough to feed the external demand.

2.4. Impact on Housing Costs

Sitka's experience is not too different from the national trend.

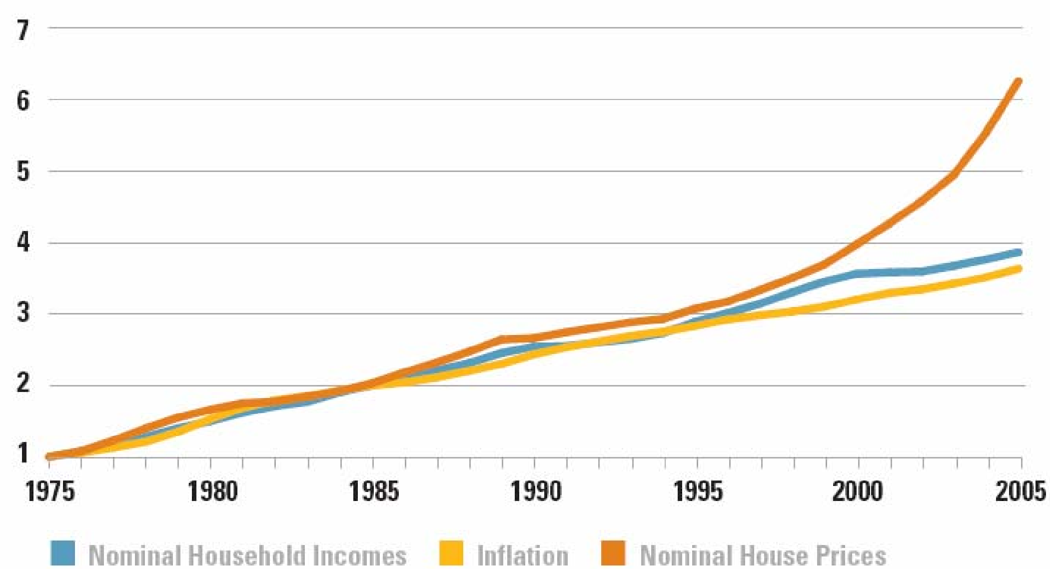
> *"House prices continued their dazzling ascent in 2005, climbing well ahead of household income and general price inflation."*
>
> *"By 2005, nominal house prices were rising at their fastest pace since 1978." (Harvard, 2006)*

"The mean and variance of housing prices have risen across the United States since 1950… More notable is the widening variance. Since 1970, the standard deviation of real prices across metropolitan areas increased by 247 percent compared with a 72 percent increase in average prices.

"This rising variance reflects an explosion of housing values at the top end of the price distribution." (Glaeser, et. al., 2005)

Figure 21 House Price Appreciation Has Diverged Sharply from Income Growth and General Price Inflation

Multiples of 1975 Value

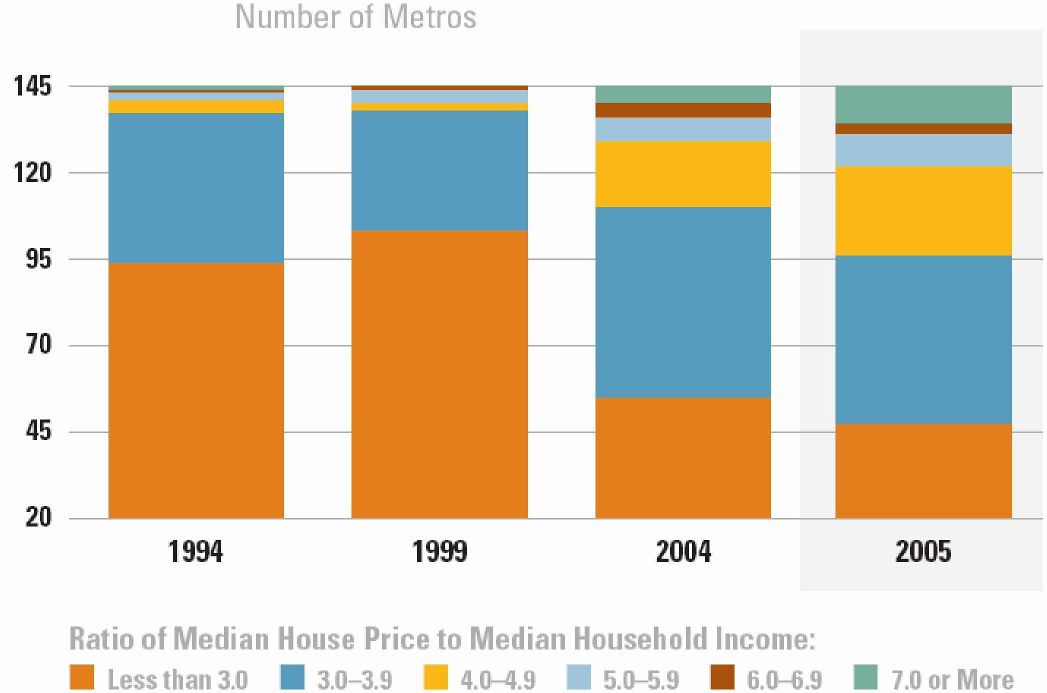


Sources: Freddie Mac Conventional Mortgage Home Price Index; Bureau of Labor Statistics, CPI-UX for All Items; Moody's Economy.com Median Household Income Estimates.

"Until 2000, nationally weighted average home prices rose closely in line with median household incomes and general price inflation. Since then, however, house price appreciation has shot ahead of these benchmarks, outstripping income growth more than six-fold from 2000 to 2005. As a result, the median house price exceeded the median household income by at least four times in a record 49 of 145 metro areas, and by more than six times in 14 metros." (Harvard, 2006)

In 2006, Sitka's median house price exceeded the median household income by 5.9 times, placing it just at the heels of the hottest 10% of the national metropolitan markets.

Figure 10 Since 1999, House Prices Have Rocketed Past Incomes in Most Metros



Source: Table W-2.

Sitka Median Price to Income Ratio

Median Home Sales Price, 2006
Collected by the City Assessor's Office
$330,000

Median Household Income, 2005
Estimated by Agnew::Beck
$54,500

Inflation Adjustment Factor for 2006
3%

Estimated Median Household Income, 2006
$56,135

Median Price to Median Income Ratio
5.9

2.41. Factors for Decline

"In most cases, it takes significant job losses—or a combination of overbuilding, modest job losses and population outflows—to drive house prices down substantially." (Harvard, 2006)

Based on the above combination of criteria, Sitka is not likely to experience a substantial decline in home prices. Sitka has a healthy and diversified economy with good job stability; Sitka has a stable population; and Sitka has modest new construction, land restraints, and no worry of overbuilding.

2.5. Housing Burden

The Sonoran Institute's Sitka report examined U.S. Census 2000 data on owner occupied housing affordability and found that in 1999, the median priced home was still affordable to the median income family. Homes were slightly less affordable in 2000 than 1990 because prices increased more than income, although the difference was partially offset by a more favorable interest rate. For 2006, plugging in numbers from the Assessor's Office and adjusted estimates from Agnew::Beck and using the same methodology, we find that homes are significantly more expensive and no longer affordable to the median income family.

Owner Occupied Housing Affordability	1990	2000	2006	
Specified ow ner-occupied housing units: Median value (Adjusted for Inflation in 2000 $'s	$ 157,180	$ 196,500	$ 330,000	*From the Assessor's Office.*
% of median income necessary to buy the median house	20%	22%	30%	*Calculated at 6.5% interest rate.*
Income required to qualify for the median house	$ 53,012	$ 55,525	$ 80,096	*Same methodology as in Note.*
Housing Affordability Index: (100 or above means that the median family can afford the median house.)*	123	112	84	*Index is below 100 for 2006.*
Universe: Specified ow ner-occupied housing units		SF3 - H76		

Income in:	1989	1999	2006	
Per capita income		$ 23,622		
Median household income (Adj. for Inflation in 2000 $'s)	$ 57,097	$ 51,901	$ 56,135	*Agnew::Beck estimate + 3%.*
Median family income (Adj.for Inflation in 2000 $'s)	$ 64,989	$ 62,361	$ 67,448	*Calculated based on the same ratio as the 2006-to-1999 median household income ratio*
Universe: Total population, Households, Families		SF3 - P82,P53,P77	2006 Dollars	

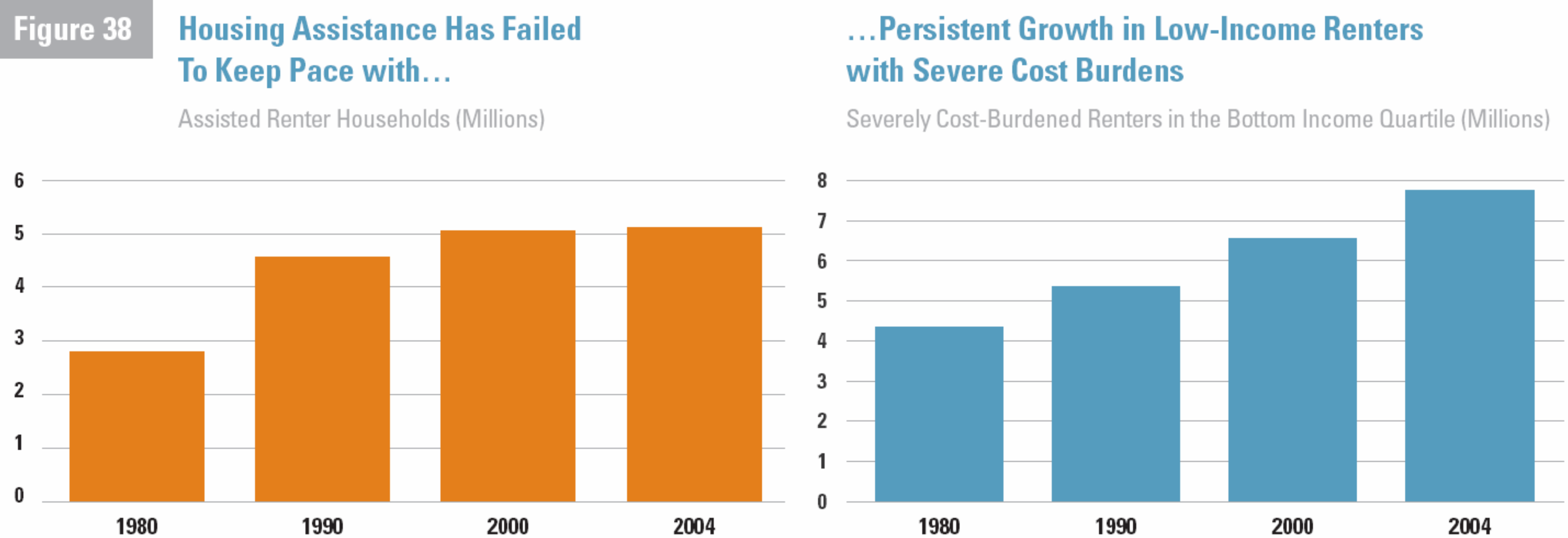
* Note: The housing affordability figures assume a 20% dow n payment and that no more than 25% of a family's income goes to paying the mortgage. It is based on an interest rate of 10.01% in 1990 and 8.03% in 2000. Use this statistic as a comparative, rather than absolute, measure.

Sonoran - Source: US Census

Renters suffer greatly in a rising housing market as their rent is directly related to available alternative options. Once a median household that would normally own a home is locked out of the ownership market because of high prices, the market gains one more rental household, and one that has a greater ability to pay, thereby inflating the rental demand and consequently rental rates. This inflation has a negative trickle down effect on lower income renters who now have to compete with the median household for a rental unit.

> *"The share of households in this bottom income quartile that pay more than half their incomes for housing set a new record of 46 percent in 2004. Affordability pressures are also moving up the income scale, raising the number of middle-income households (earning $22,540 to $75,700) with severe housing cost burdens by [30%] between 2001 and 2004, to a total of 3.1 million." (Harvard, 2006)*

Figure 38



Sources: U.S. House of Representatives, Committee on Ways and Means,Total Renter Households Receiving Direct Housing Assistance by HUD, Greenbook 2000, Table 15-30; U.S. Dept of Housing and Community Development, FY2005 Performance and Accountability Report.

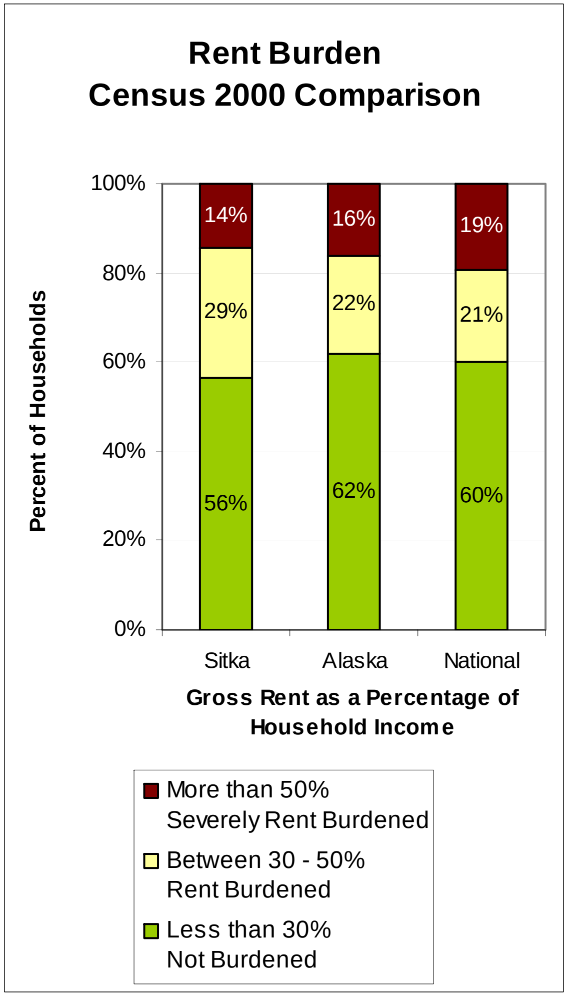
Note: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe cost burdens are defined as housing costs of more than 50% of pre-tax income.
Source: JCHS tabulations of the 1980, 1990, and 2000 Decennial Census Public Use Microdata and the 2004 American Housing Survey.

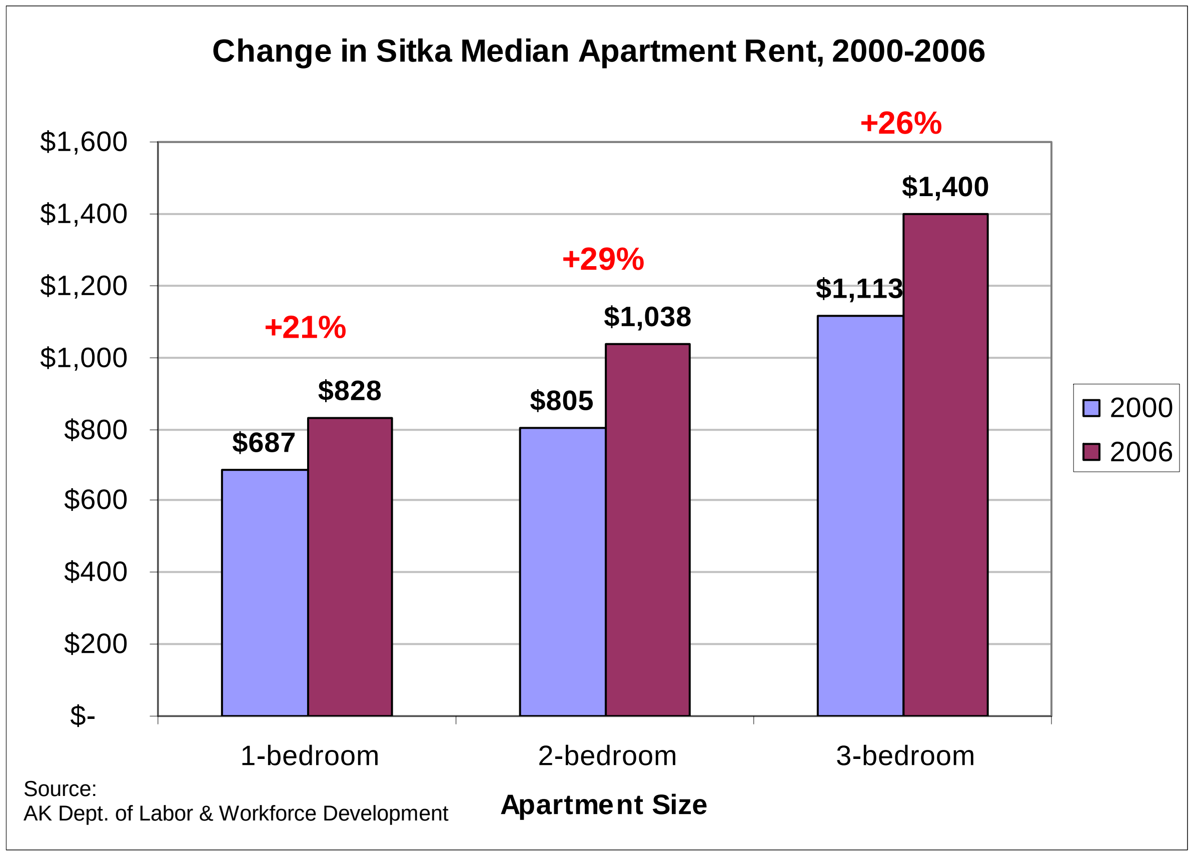
Housing Burden

The U.S. Department of Housing and Urban Development defines housing burden as spending more than 30% of the household income on housing costs. Households spending more than 50% of their income on housing costs are considered severely burdened.

Based on Census 2000 data, Sitka has a larger proportion of households who are rent burdened (44%) than both the state (38%) and the country (40%). At the same time, Sitka also has a smaller proportion of households who are severely burdened (14%) than the state (16%) and the country (19%).

However, this data predates the recent housing surge and is rather outdated. Since the time the Census data was collected, rents in Sitka have jumped up considerably, as shown in the graph below based on Alaska Department of Labor & Workforce Development data. Coupled with stagnant wages, it is probable that more households today are rent burdened, and a greater percentage are severely burdened.





3. Tools and Action Plan

In recent years, Sitka has experienced dramatic increases in home values and rental prices, directly and negatively impacting low-income households, first-time homebuyers, existing homeowners on fixed income, newly-recruited employees, populations with special needs, and hence, also the community at large. The effort to address affordable housing is complex because each segment has diverse and unique housing requirements. Thus, the long-range affordable housing action plan will necessarily take on a multi-faceted and land-efficient approach to create more affordable housing opportunities for all persons in Sitka.

This effort must be intentional and not haphazard.

The Housing Survey and market analysis identified gaps in Sitka's housing stock both in type and size and in price. Currently, moderate income households lack ownership opportunities while lower income and special needs households have difficulty finding affordable rentals. To solve these problems requires a thoughtful, comprehensive, and committed approach to create affordable housing options for all Sitkans.

This section of the report will outline goals, propose policy and construction tools, and introduce a concise action plan for the next 5 to 10 years.

Limited Current Housing Options

<30% AMI	30-60%	60-80%	80-100%	100-120%	120%+
		Trailer Homes	?	?	Market Homes
?	?	Market Rentals			

Full Spectrum of Housing Options

<30% AMI	30-60%	60-80%	80-100%	100-120%	120%+
		Resale Restriction or Equity Sharing	Market Choices with some Sacrifices		Market Homes
Requires External Assistance		Market Rentals			

2007 City and Borough of Sitka
Comprehensive Plan:

2.1. General Goals and Policies
The City and Borough of Sitka will conduct its affairs and will use its resources, powers, and programs to seek, facilitate, maintain, and improve:
2.1.23. Adequate, safe, and affordable housing.

2.2 Economic Goals and Policies
The City and Borough of Sitka will conduct its affairs and will use its resources, powers, and programs to seek, facilitate, maintain, and improve economic activities which:
2.2.15. Provide housing that can be acquired by a median income Sitka household using no more than 30 percent of its gross income;
2.2.16. Improve the availability of affordable housing, both long-term and short-term, to accommodate working families, seasonal workers, and students.

2.5. Urban Residential Goals and Policies
2.5.1. To encourage diverse housing types and densities in order to assure decent housing for all persons in all income groups.

3.1. Goals

The Housing Survey and market analysis identified gaps in Sitka's housing stock both in type and size and in price. Currently, moderate income households lack ownership opportunities while lower income and special needs households have difficulty finding affordable rentals. Appropriate overarching goals for the community include:

1. **Create a full spectrum of housing options**
   Communities thrive in diverse neighborhoods. Ideally, neighborhoods would have mixed income, mixed lot sizes, mixed tenure, and mixed housing types to offer suitable housing opportunities for households of all kinds. Sitka should target construction of homes that are in the price, type, and/or size categories identified as lacking in the housing gap analysis.

2. **Create affordability, maintain fairness**
   Due to the changed nature of the market, moderate income household who wish to own will necessarily have to make sacrifices to achieve affordable prices. For this group at this time, while construction costs are still below market prices, intentional effort, not subsidies, will be the key ingredient. For low-income and special needs households, however, market rates cannot support development costs. Assistance (from the State) will be necessary, and with it comes a long list of restrictions.

3. **Increase rental vacancy rate to 4%**
   According to Juneau senior planner Susanna Montana, communities need a 5% rental vacancy rate to keep prices stable and options available. Sitka has experienced a severe lag in multi-family developments, and rental availability, particularly in the summer time, is extremely tight. Sitka needs more units of rental housing that are not converted from existing single-family homes. An average 4% vacancy rate would mean about 55 available units seeking renters at any one time.

4. **Increase owner occupancy rate to 62.5%**
   The 2000 Census revealed that Sitka is lagging behind both the state and national average for owner occupancy rates. Increasing the rate from 58.1% to 62.5% would bring Sitka to the Alaska average for 2000, which is still 3.7% behind the national average. Neighborhoods with higher owner occupancy are more stable and better maintained. Without adding units, this rate change would mean the conversion of about 140 homes from renter occupied to owner occupied. Or, by only adding owner occupied units, this rate change would mean the introduction of about 380 new units.

3.2. Policy Issues

To pursue the goals listed, Sitka will want to encourage owner occupancy and possibly assist in securing external funding for low income and special needs housing. The policies that require Assembly and public debate revolves around: taxes, planning, city-owned land disposal, and financing assistance. These are not necessarily recommendations so much as points for public discussion.

3.21. Taxes

At its core, taxes are about the provision of necessary public goods paid for by the general public through a mandatory structure deemed most fair and equitable. How does Sitka compare with other places in Alaska?

Data on Alaskan municipalities and boroughs from the Alaska Department of Commerce, Community, and Economic Development show that Sitka has the lowest property tax and the highest sales tax. Also, other than Ketchikan Gateway Borough, Sitka is the only jurisdiction with a property tax mill rate in the single digit. Comparing with its Southeast neighbors, Sitka ranks the second lowest in total per capita tax revenue from all sources.

Municipalities and Boroughs	Property Tax Mill Rate, 2006	Sales Tax, 2006	Other Taxes, 2006
Anchorage	15.28	No	8% Bed Tax and Car Rental; 5.5 mil Tobacco Tax
Bristol Bay	13	No	3% Raw Fish; 10% Bed Tax
Fairbanks	19.623	No	8% Bed Tax; 5% Alcohol Tax; 8% Tobacco Tax
Fairbanks North Star	14.491-17.073	No	8% Bed Tax; 5% Alcohol Tax; 8% Tobacco Tax
Haines	13.13	5.5%	4% Bed Tax
Juneau	10.17	5%	7% Bed Tax; 3% Liquor Tax; Tobacco Tax ($0.30 per pack)
Kenai	12.1	3%	No
Kenai Peninsula	10.35-13.85	2%	No
Ketchikan	13.9	3.5%	7% Bed Tax
Ketchikan Gateway	7.5-8.4	2.5%	4% Bed Tax
Kodiak Island	13.4	No	5% Bed Tax; 10.25 mil Severance Tax
Matansuska-Susitna	13.645-14.755	No	5% Bed Tax; 5.09% Tobacco Excise Tax
North Slope	19.05	No	No
Sitka	6	5% / 6%	6% Bed Tax; Fuel Tax ($0.02 per gallon)
Wasilla	11.415	2.5%	Alcohol Tax; Aviation Fuel Tax
Yakutat	10	4%	1% Raw Fish; 8% Bed and Car Rental

Southeast Cities and Boroughs	Per Capita Revenue, 2006
Juneau	$ 2,327
Yakutat	$ 2,072
Haines	$ 1,844
Ketchikan	$ 1,701
Sitka	$ 1,574
Ketchikan Gateway	$ 1,089

While Sitka may want to explore potential property tax variations, the state statute is very restrictive and would have to be amended first before any of the following options can be adopted.

> Property Tax Tiering. Two different tiers are worth considering. First, a luxury tier would charge the basic mill rate up to a certain threshold and a higher mill rate on any amount of the assessment over the threshold. Second, a non-owner-occupancy tier would charge the basic mill rate for owner-occupied homes and a higher mill rate for non-primary residences and single-family rental properties. These tiers are intended to increase the contributions from luxury, investment, and vacation home owners.
>
> Assessment Freeze. Proposition 13 in California was a landmark property tax law that allowed local municipalities to protect long-term residents from rapidly rising home values and property taxes. The law allowed a jurisdiction to freeze the assessment of homes to a fixed tax year such that continued owner occupancy of that home would result in annual assessments adjusted only for inflation. Any sales transaction of the home would reset the fixed tax year to that of the sales year, thus new buyers would pay the full market valued property tax.
>
> Real Estate Transfer Tax. This tax may or may not require state action, and is placed on a real estate transaction. It may be a flat tax on the sales price of the home, or could have an exemption up to a certain threshold or higher rates for prices over a threshold. Revenue generated from this tax is usually dedicated to affordable housing purposes, but could go into the general budget.

In addition to property tax, Sitka also levies a rental sales tax. Personally, through all of my housing experience, I have never encountered a rental sales tax, certainly not one a landlord could pass off to the renter by charging “rent, plus tax.” If an elimination to the rental tax is sought, it should probably occur in a budget-neutral package.

Also, Sitka could explore a functionally-equivalent tax, such as an annual landlord business tax, that cannot be advertised as “rent, plus tax.” While it may very well be that the tax is embedded in the rent charged, it should only be accounted for internally by the landlord and not paid for above and beyond the quoted rent by the renter. This confusing, seemingly superficial change is founded on the same reason why businesses don’t include sales tax in the price of taxable store items. It would make everyone’s lives easier to see the total price on the tag, but perception matters, and people perceive an inclusive price versus “price, plus tax” differently.

3.22. Planning

Density is the key to affordability, but it does not trump quality of life. Zoning is intended to protect neighborhoods from incompatible use, and existing neighborhoods should be able to retain its original intent, separate from changing external conditions, much in the same way as older neighborhoods were grandfathered despite the original small lots in newer R-1 zoning definition. The only permissible change to higher density zoning allowed by the Planning Commission is when an adjacent area is already zoned to the higher density.

However, when new land developments first open, Sitka will have an opportunity to allow for higher density land use, create more R-2 areas, and potentially introduce a new R-1 variant.

<u>More R-2 Areas</u>. Currently, the Planning Code regulates zoning in progressively higher density limits that are inclusive of all densities below that limit. For example, a tri-plex, no matter how small, is never allowed on one R-1 lot, but a single-family home is always allowed on an R-2 MH lot, no matter how large the lot. These one-directional regulations are intended to preserve neighborhoods at or below a density limit. They also unintentionally make it possible for 25 R-2 lots to turn into 25 single family homes (see Knutson Drive), making it effectively an R-1 neighborhood. Given the land scarcity Sitka faces, it may be advantageous to open the majority of new lands as R-2 and allow the community to fill it with diverse housing types and with the option to exercise higher densities.

<u>New R-1 Variant</u>. R-1 zoning, with a minimum lot size of 8000 square feet, allows for up to a single-family home with attached apartment, a duplex, or a zero-lot line (which divides the lot into two at 4000 square feet each). Each option effectively houses two families in two attached units on one lot of 8,000 square feet. Seeing this design intent, the recent advocacy toward smaller homes, and the success and popularity of older neighborhoods with smaller lots and smaller homes (see Etolin and Biorka Streets), a new R-1 variant, R-1.5, could be introduced in new land developments. Existing neighborhoods cannot be converted to R-1.5. The variant would allow for small homes on small lots under the following conditions:

- Minimum lot size of 5000 square feet;
- No apartments, no duplexes, no zero-lot line allowed;
- Must observe all applicable R-1 rules, such as setbacks, maximum structure foot print less than 35% of the lot, maximum height, etc.;
- Absolutely no variances can be applied to the Planning Commission;
- In addition, a maximum of 1400 square feet of living space.

The variant would effectively house two families in two detached units on two lots of 10,000 square feet total.

Revision of existing R-2 zoning regulations will also be needed to accommodate the development of townhouses and cottages. R-2 zoning currently allows multi-family housing where the first unit requires 8,000 square feet of lot area and each subsequent unit of the same development an additional 1,000 square feet. However, in a townhouse or clustered cottage development, which has some similar characteristics to multi-family housing, ownership is not centralized to the building owner but to individual home owners who own their own lot. This type of development is currently not allowed because the lots would divide out to be 2,000 square feet per lot or less.

In terms of precedents, only three legitimate townhouse developments exist in Sitka. One is the Shee Atika set of five on Alice Island, and another is the warehouse conversion set of four on Sawmill Creek Road. Both of these developments are in Waterfront zoning district that allowed for small lots with no side setbacks to be owned individually.

The last set is the Monastery Townhomes on the corner of Monastery and DeGroff Streets. The developer used a PUD on his R-2 property and set the unwritten rule of two thirds the maximum number of multi-family apartment units otherwise allowed on the same property. For example, an 8-unit multi-family development would require a minimum lot size of 15,000 square feet, whereas an 8-unit townhouse development would require 19,000 square feet, or equivalent to a 12-unit multi-family development. This 2/3 rule should be codified to simplify future townhouse and cottage developments.

Sitka may want to explore methods of encouraging private owner development of small, in-law, rental units attached to single-family houses. Sitka may offer an expedited and/or reduced rate planning and building process for units that are less than 1000 square feet. Such apartments would add much need rental units to the market and would be scattered through diverse neighborhoods.

Sitka may want to facilitate the formation of Trailer Owners Associations at selected trailer courts and encourage court owners to consider giving such associations the first opportunity to purchase the court at the time of sale. Such a transaction would preserve trailer units, avoid potential displacement, grant land ownership benefits, and provide a tool for rule enforcement through the association.

Sitka may also want to write minimum visitability standards into the building code and encourage private adoption of universal design principles as broadly as possible. With longer lifespans, aging baby boomers, and well-documented benefits to universal design, such a shift would add versatility and real value to Sitka’s new construction housing stock.

I defer scrutiny of these tools to the expertise at the Planning Commission and the Long Range Planning and Economic Development Commission.

3.23. City-Owned Land Disposal

In today's market, land disposed does not miraculously transform into housing affordability, directly or indirectly, without effort. Sitka must be particularly careful with city-owned land. Once disposed, it will be gone from the public realm forever. And if the community feels land availability is a problem today, that problem will be completely intractable when the city no longer owns land.

Unlike privately owned vacant parcels that serve the desire of its individual owners, city-owned land is the only land that can be reliably called upon to serve a public purpose. As such, Sitka should take a pro-active role to control the outcome of its properties, and each piece of city-owned land disposed should carry a distinct purpose and serve a community need with intent.

At the very least, 40% of land or lots disposed by the city should be first offered to affordable housing developments. 40% is a logical number because affordable housing typically serves households below 80% of area median income, or 40% of the total population. Some land and lots could be offered directly to the public to ensure fairness in access and diverse mixed-income neighborhoods. The 40% set aside for affordable and special needs housing ideally would transact at market value; it is the extra time not in direct competition with the market that is crucial for affordable housing developers to assemble their complex financing that usually involves grants and special loans and their associated protracted application processes. If after a year, not all of the 40% set aside are committed, those remaining lots should then be offered directly to qualified individuals and households whose income is below 80% AMI. After another half year, if lots still remain, those could then be offered to the general public. This hierarchy of land sale process provides greater opportunities for underserved populations to secure the property. It should also be noted that large parcels and contiguous parcels are particularly desirable as they offer more project flexibility.

Sitka may offer two additional options on city-owned land to assist the development of affordable housing. First, Sitka may defer payment of the land until the completion of construction, when permanent financing comes into play. In this case, Sitka reduces the need for higher-interest interim loans by the developer and gains some access to watch over the project during the construction phase to make sure it delivers its intent. Second, Sitka may form a land trust and hold on to its land permanently. The building is constructed on top of the land trust and serves its function indistinguishably. In this case, land cost is taken out of the total project cost, making a difficult project more feasible. In addition, Sitka retains ownership of the land, mandates permanent affordability for whatever structure sits on it, and have unlimited future options when the building reaches the end of its life cycle and is demolished, making way for another project that will serve unforeseen future public needs.

3.24. Financing Assistance

Sitka should continue to use its resources to secure grants related to affordable housing. Sitka is currently administering a homebuyer assistance program. There are future funding opportunities available for low-income rehabilitation, senior and disabled accessibility modification, as well as other grants available through AHFC and USDA.

Sitka may also explore two additional methods of assisting affordable housing development. First, Sitka may set up a revolving loan fund that has an option for the Assembly to sunset when it is no longer needed. The revolving loan would be used as interim construction financing for affordable housing projects, and all money loaned would be returned to the fund at the completion of construction, when permanent financing replaces the interim loan. When the fund sunsets, disbursed loans are collected but no new loans are made, and Sitka recovers its entire initial setup amount, plus interest charged to each cycle of loans.

Second, Sitka may set up a Housing Trust Fund that is funded through dedicated taxes, such as a real estate transfer tax or a fraction of any increase in the property tax mill rate. This fund could serve any affordable housing purposes, from grants for home repairs, to staff salary, to interim construction loans.

3.3. Construction

The Housing Survey and Market Analysis sections already identified mismatches that lead to gaps in the housing stock. To reiterate:

> *"Today, the median size of a single-family home is around 2,100 square feet, whereas in 1967 it was closer to 1,500 square feet. According to the U.S. Census Bureau, in 1987, 13 percent of new homes were 1,200 square feet or less, but by 2000, only 6 percent of homes were that small. Similarly, in 1987, 21 percent of newly constructed homes were 2,400 square feet or larger; by 2000, that figure had risen to 35 percent." (Susanka, 2001)*

> *"Several demographic forces will combine to make single persons the fastest-growing household type: the echo baby boomers are entering young adulthood, divorce rates remain high and stable, the median age at first marriage continues to rise, remarriage rates are falling slightly, and the number of elderly widows is growing." (Harvard 2006)*

> *"The rising number of younger childless couples will strengthen the market for smaller homes and rentals, while older empty-nest households will fuel demand for higher-end, trade-up homes requiring little maintenance." (Harvard 2006)*

To develop a full spectrum of housing options, Sitka will target the missing segment — smaller homes for smaller households. Fortunately, this target coincides with affordability goals as well. Modest, but high quality, homes can save on land and construction costs by increasing density: building attached or clustered smaller homes on smaller lots and potentially sharing common space. Energy efficient features should be widely incorporated to reduce future utility costs. Such a home would have a naturally deflated market value but still have wide appeal. Singles, couples, small families, seniors, and others may find this home attractive for different reasons and free up demand for more conventional homes for households who desires a larger living space and a larger yard.

Sitka may also want to explore coordinating self-help sweat equity projects for lower income households, and work with the Education Consortium and the vocational school in developing student-built homes.

2007 City and Borough of Sitka
Comprehensive Plan:

2.5. Urban Residential Goals and Policies
2.5.2. To encourage quality residential areas which function as integral neighborhood units with adequate public facilities, and to:

D. Provide an adequate amount of housing that meets the needs of Sitka's elderly and handicapped.

2.5.6. To recognize the need for and value of mobile home parks.

2.10. Social Services Goals and Policies
It is the policy of the City and Borough of Sitka to strive to:
2.10.3. To make available to all community members adequate housing options that:

C. Meet the special populations need for:

1. *Emergency housing*
2. *Seasonal housing*
3. *Transitional housing*
4. *Assisted Living*
5. *Nursing home beds*

"Poverty is a common condition of the disabled, with nearly half in the bottom income quartile. The Technical Assistance Collaborative reports that, on average, the disabled living on Supplemental Security Income (SSI) pay more for rent on a one-bedroom apartment than they receive in support." (Harvard, 2006)

"Seniors are the most likely group to have disabilities, which affect some 42 percent of people age 65 and older, compared with 19 percent of non-elderly adults." (Harvard, 2006)

3.4. Long-Range Action Plan

We need an action plan to implement the tasks that will achieve the goals set forth. On the policy side, the tools discussed are an ongoing public debate. On the construction side, time should be divided between creating market rate homes that are affordable to the median income family and meeting the housing needs of low-income and special needs populations.

Real estate projects typically go through three phases: exploration, which may or may not be fruitful; pre-development, where designs are finalized, financing is secured, and a contractor is signed; and construction, when the actual structure is built.

For market rate homes with owner-occupancy restrictions, the objective is to launch one 8- to 12-unit development into pre-development every year. This incremental approach would allow an opportunity to reflect on market response and absorption rate, while putting up roughly 50 units over a 5-year span.

At this time, three sites are being explored for the initial developments: first, 4 of the 10 lots that will be available at the Indian River Subdivision; second, the current electrical pole yard storage site on Granite Creek Road; and third, Sheldon Jackson College uplands area.

For low-income and special needs housing, the objective is to work closely with service nonprofits and launch one special needs or multi-family project into pre-development every year. This flexible approach would allow for the most ready project to proceed.

At this time, the City Shops affordable housing RFP has already been underway, and an award committee is reviewing the proposed 35-unit multi-family project. A trailer court conversion to an association of trailer owners is also being explored.

Special needs projects and their nonprofit sponsors include:

- Treatment, emergency and transitional housing for youth (Youth Advocates)
- Assisted living facility for seniors (Community steering committee)
- Homes for people with permanent disabilities
- Transitional housing for victims of domestic violence (SAFV)
- Faculty and student housing (Sheldon Jackson College)
- Accessibility modification grants for seniors and the disabled (SAIL)

According to this plan, at any time starting three years from now, there should be two projects under construction, two projects in pre-development, and at least two projects being explored.

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